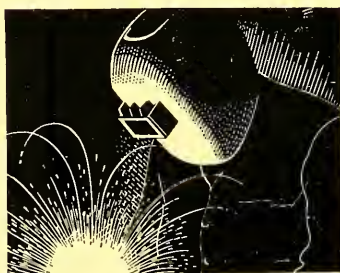


LINCOLN'S INCENTIVE SYSTEM

JAMES F. LINCOLN

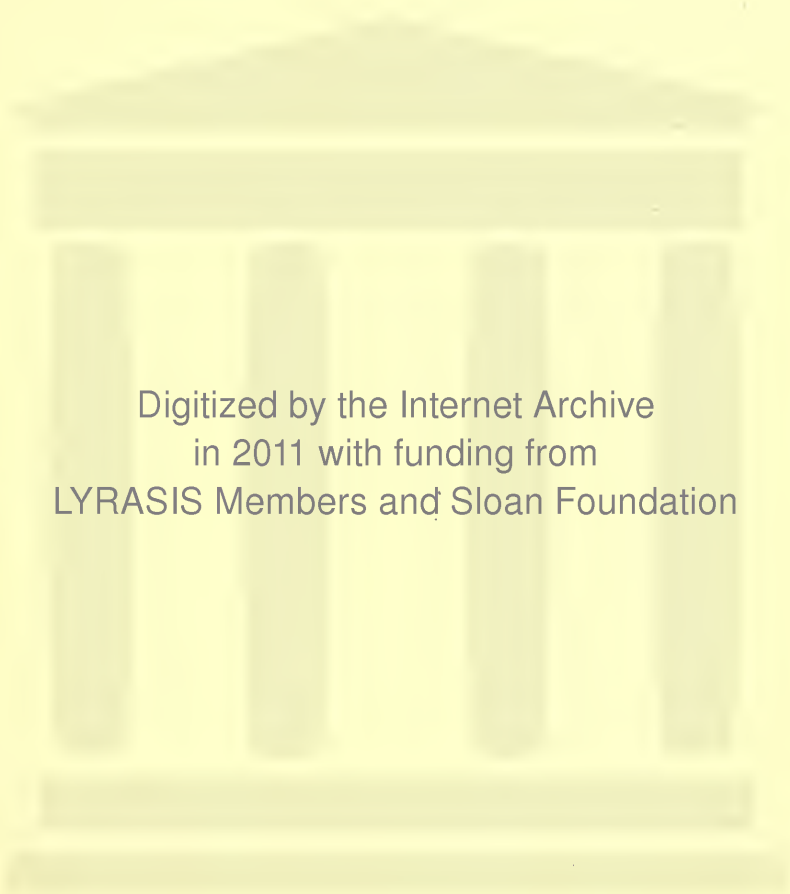
INDUSTRIAL ORGANIZATION AND MANAGEMENT SERIES

UNIVERSITY OF FLORIDA
COLLEGE OF
ARCHITECTURE AND
ALLIED ARTS



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Arc Welding Foundation*

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McGRAW-HILL INDUSTRIAL ORGANIZATION
AND MANAGEMENT SERIES

L. C. MORROW, *Consulting Editor*



LINCOLN'S
INCENTIVE SYSTEM

*The quality of the material used in the manufacture
of this book is governed by continued postwar shortages.*

McGRAW-HILL
INDUSTRIAL ORGANIZATION AND MANAGEMENT SERIES

L. C. MORROW, *Consulting Editor*
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LINCOLN'S INCENTIVE SYSTEM

BY
JAMES F. LINCOLN

Covering the basic principles
of the incentive system
in manufacturing

First Edition
FIFTH IMPRESSION

New York

London

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1946

LINCOLN'S INCENTIVE SYSTEM

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THE MAPLE PRESS COMPANY, YORK, PA.

TO MY FELLOW WORKERS AT
THE LINCOLN ELECTRIC COMPANY WHO MADE
THE RECORD AND WERE THE INSPIRATION.

PREFACE

There has been much interest during the war in so-called "incentive" systems. Some attempt toward greater efficiency by some form of incentive has been used for many years.

So far as the author is informed, all such attempts are based on the payment of greater rewards for greater production on an agreed basis. These have had varying degrees of success and have been greeted with both cheers and jeers by those involved, depending on the results obtained and the point of view of the person in question.

Incentive management, as outlined in this book, goes far beyond these conceptions of incentive pay. Incentive management is a philosophy of industry and life, which starts with the needs of society and depends primarily for its success on the development in the individual of his latent abilities. It is not only a method of wage payment; it is an economic system.

There will be some readers who will expect that a formula for the successful application of the plan can and will be given. To those the author can only say that fundamental philosophy cannot be stated in a rule. Principles only can be stated and the results shown. This is done. It is well to remember in reading the plan that such philosophy has a universal application—not only in industry but in all activities that require the cooperative action of many people.

It should be remembered also that the English language, although the richest of all in its ability accurately to express

PREFACE

thought, may still give different people impressions that are widely at variance. It is all too easy to insert into any statement the preconceived notions that the reader's experience may inject. Under such injection the resulting conclusion of the reader may be far from that intended by the author. The reactions of people of opposite political faiths to the leader of one faction is a case in point. It is not possible to have William Lloyd Garrison and Jeff Davis get the same conclusion from an abolition speech, no matter how ably presented. In the same way, to some labor leaders incentive management is the "speed-up." To others who are equally interested it is the solution of most of our industrial problems.

Whatever the conclusions of the reader, there is no doubt that the incentive-management philosophy outlined herein is fundamental to man whether he is playing a game, raising a garden, or living a life.

JAMES F. LINCOLN.

CLEVELAND, OHIO,
March, 1946.

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CHAPTER I

Results of Incentive Management

THE theories and principles that will be outlined in this book will probably make the ultraconservative industrialist angry. They will make the old-time labor leader scream, "We wuz robbed." They will make the short-sighted worker feel that he will soon be out of a job, because all work will have been already done by the more rapid production shown. It will make the reasoning, unprejudiced individual wonder why the incentive system described herein has not been universally applied long since.

If the reader is not conscious of the fact that there has been, so far, little or no progress made by industry in the development of the worker as a human being, this book had best be thrown aside. If the reader does not feel that most manufacturing progress so far made comes from better machines and gadgets applied by top management, rather than from the development of men, he will find little interest here.

DEVELOPMENT RESIDES IN MAN HIMSELF

There is no thought that what is cited is a final answer to the problem. It is only a start. There will be others

LINCOLN'S INCENTIVE SYSTEM

who will carry the same principles to heights far beyond anything shown here. The principles, however, are immutable in human beings. To that extent the information is useful. These principles must be used in all outstanding progress that will be made in the development of industrial methods. They are fundamental and as old as the inbred hope that makes man look to the stars.

These principles and results are not the vaporings of the unstable mind of a recent "do-gooder." They were announced thousands of years ago, both by experience and by the philosophers of the ages. That they work is proved not only by what is shown here but in the experience of every one who has had the courage and understanding to try them. These principles are not pipe dreams; they are as fundamental as the multiplication tables and as useful.

THE TERM "WORKER" IS ALL-INCLUSIVE

It should be borne in mind at all times that when the industrial worker is mentioned in this book, I am not speaking only of the man who operates a lathe or an assembly line. I am speaking of all the workers who make American industry the marvelous thing it is. That includes all men who work with hands, or head, or spirit. I refer to the worker as all-inclusive—the Henry Fords, the R. G. Le Tourneaus, the Charles F. Ketterings, and the Joe Glutzes. They are all workers. They are all industrial workers as here mentioned.

NEW THINKING NEEDED IN MANAGEMENT

Since a new direction is being pointed out, it is well to expect a fundamental change in the concepts on rights and responsibilities of management and men. We are at all times accepting new ideas regarding things in science.

RESULTS OF INCENTIVE MANAGEMENT

Why not new concepts regarding man? He is more surprising and the source of more progress than anything inanimate.

METHOD OF PRESENTATION OF DATA

In outlining the principles involved in this plan of incentive management, I shall first cite the results during the period of its development and application in The Lincoln Electric Company. I shall then outline the causes that produced them. There may be doubt in the minds of some readers as to the accuracy of my reasoning in drawing these conclusions. After all, in handling an industrial operation, one is dealing with that extremely complex organism, man. The reactions obtained are not so direct in cause and effect as in the case of a sum in arithmetic, nor so easily proved. Therefore, theorizing on what causes an individual to react in any particular way is not too easy to demonstrate. It is believed, however, that the data cited will indicate but one possible conclusion. Whether the reasons given for the result are valid is of little importance. The thing of outstanding note is that the results were obtained over a long enough period of time so that the effects of any outside influence were a matter of small consequence. The record therefore can be relied on as a correct indication of what followed from the application of the plan shown.

PRODUCTS OF THE LINCOLN ELECTRIC COMPANY

The activity in which this incentive system was applied is a highly competitive one, manufacturing and distributing arc-welding machinery and electrodes. An arc-welding machine, as shown herein, is a motor-generator set similar in all respects to any other set, used for many purposes. Welders shown herein are motor-generator sets made in

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sizes of approximately 3 kilowatts up to a maximum of 75 kilowatts.

The other commodity manufactured is an arc-welding electrode, which is a mild-steel wire coated with certain chemicals by the extrusion process. These chemicals, after extrusion, are dried on the rod. The coating thus formed acts as a shielding means when melted by the welding arc and excludes the oxygen and nitrogen of the air from uniting with the deposited metal. The total volume of this business in the United States, as of today, is about 100 million dollars per year. Lincoln's proportion of this is approximately 30 per cent.

The activity in the case of the welding sets, both in size and in problems involved, is one that is parallel to that of any other manufacturer of electrical equipment. In the case of the electrodes, it is comparable to any other manufacturer of steel products. It does not require unusual skills nor particularly long training, insofar as the machine operations are concerned. The sole exception to this statement is in the production of the necessary dies and tools. These specialized operations are small compared with the total number of men employed. The manufacturing processes are no more complicated than those in the usual plant manufacturing machine tools, automobiles, electric tools, or kindred products.

The Lincoln Electric Company was started in 1895 on a capital of \$250 of borrowed money and has been financed since solely by its profits. At present it is the largest manufacturer of arc-welding machines and electrodes in the world.

It is hoped the reader will keep in mind the fact there is nothing unusual in the product, nor in the productive methods, to differentiate this particular business from tens of thousands of others all over the world. There are no

RESULTS OF INCENTIVE MANAGEMENT

patents or secrets that give our company any advantage over competition. Therefore, the results shown can be obtained in any other industry by the same means. The incentive system of management is a philosophy of industrial operation, not a method peculiar to arc welding or to The Lincoln Electric Company or to Cleveland or to Ohio or to the United States.

INDUSTRIALIST MOST ABLE OF OPERATORS

In the following description of incentive management, there are certain criticisms of some industrial practices. There may be some readers who will feel that the criticisms are leveled at all industrialists. I want to state as strongly as I am able that no such universal criticism is intended. I am not criticizing the industrialist at all. The only fault that is found is with some more or less customary actions which are harmful in their effect on incentive management. Most industrialists are just as critical of these practices as am I.

Instead of being critical, I believe the successful industrialist is the most important citizen in our economy. He makes our standard of living by his genius. Without him we would have lost the war. Without him we must certainly lose the peace. Although he is put under a cloud occasionally by those who are not fully advised or who are self-seekers, yet he is generally accorded the place that he deserves by most people in our system.

He has neither the time nor the desire to protect himself from the attack of those who do not understand. He knows he is good and he acts accordingly. I do not criticize him; I applaud him. I do not deplore his acts; I am merely showing a new direction. Here is a new development in management. It requires new policies from the leadership involved.

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The results of this incentive system of management can best be shown by diagrams and pictures covering the period of development and application.

Figure 1 shows the hours of direct labor required to manufacture a 200-ampere welding machine from 1921 to date. Since there has been a reduction of over 80 per cent

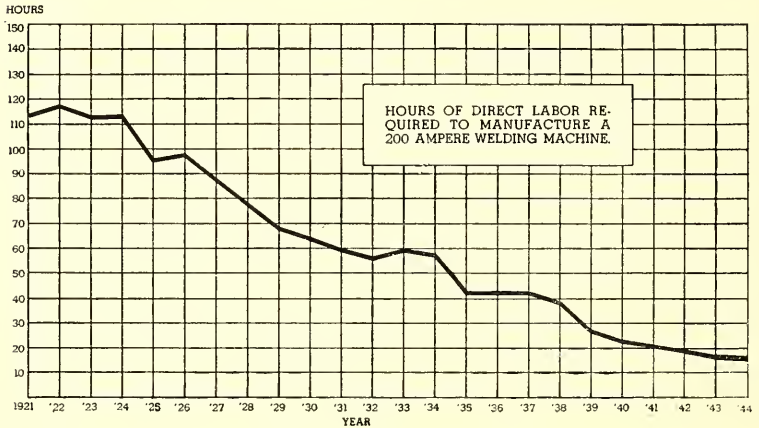


FIG. 1.

in these hours, it would be well to keep in mind the following facts:

The machine fundamentally, during the time shown, is the same except for changes in detail design. There have however, been improvements that have changed its appearance. In making the reductions shown, new tools, new techniques, and new methods have been introduced. These are also the result of the incentive system.

This reduction of more than 80 per cent in the man-hours necessary to produce this machine does not mean that the men who are doing the work are moving five times as fast as they did in 1921. There is now probably less physical effort expended. Incentive management is not a speed-up. It is a way of producing better methods of manufacture by

RESULTS OF INCENTIVE MANAGEMENT

spurring the thinking and imagination of all to better things in methods and machines of production, in techniques, and in the desire of all to accomplish.

The engineer, the time-study man, the purchasing department, and every other department are just as much a part in the more rapid production of every job as is the operator.

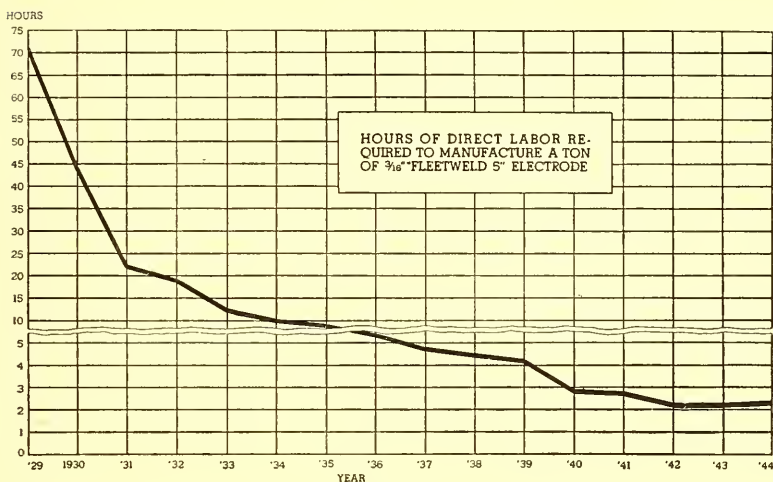


FIG. 2.

Their responsibility is greater and this responsibility gives them a greater reward. Only by eliciting the cooperation, imagination, and growth of every person in the organization are the results shown possible.

It must be made clear that this system is not a method of speed-up, which is usually the result sought by the so-called "incentive" systems put in by many industrial engineers.

Figure 2 shows the number of hours of direct labor required to manufacture a ton of $\frac{3}{16}$ -inch No. 5 electrode, the other product made by The Lincoln Electric Company. It comprises about half of our total output. In this case

LINCOLN'S INCENTIVE SYSTEM

there has been a reduction in production hours of over 96 per cent within the 15 years listed.

Although the product in this case has not changed, the methods and skills developed are comparatively revolutionary. This more efficient result compared to that of the welder shown in Fig. 1 is, to some extent, due to the fact

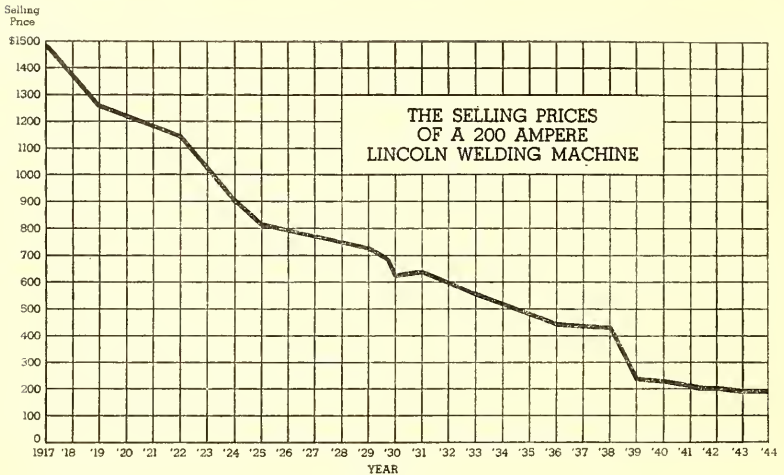


FIG. 3.

that there is no change in the product. Hence, concentration on method only was followed.

There has been a tremendous increase in operating speeds because of the new machinery that has been developed as a result of incentive on the men concerned. It will be seen that more than half of this reduction in man-hours occurred in the first 2 years. The rate of decrease, however, was almost as great thereafter. This percentage is the only accurate measure of progress.

Figure 3 shows the reduction in price that has resulted from the better methods shown in Fig. 1, as well as from the better design that has been the outcome of the incentive system. During the period shown the ratio of selling price

RESULTS OF INCENTIVE MANAGEMENT

to cost has remained approximately constant. This reduction in the selling price therefore is more remarkable since it took place in the face of rising hourly labor costs and increased material costs.

Figure 4 shows the reduction in the selling prices of $\frac{3}{16}$ inch electrode over the period 1931 to 1944. This is the

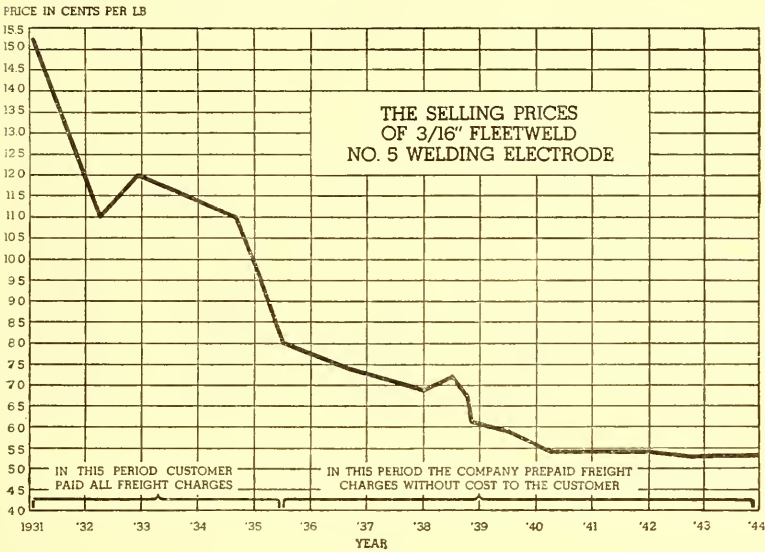


FIG. 4.

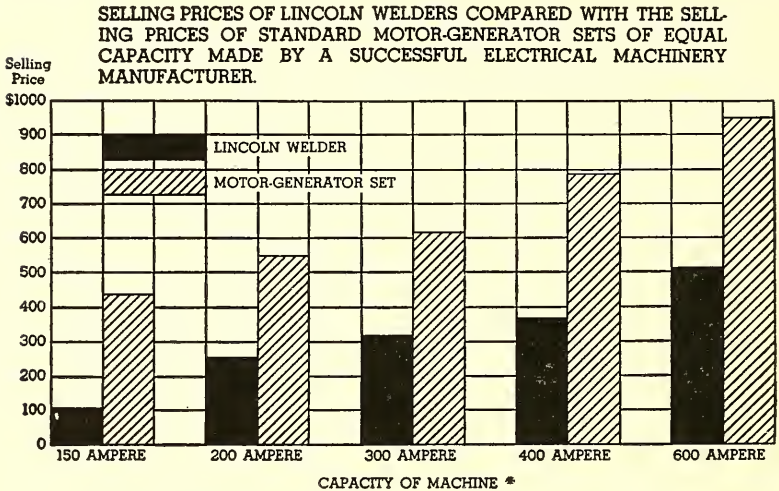
result of the reduced labor hours shown in Fig. 2. Here also material costs have increased greatly during the period shown. Here also, as in Fig. 3, the selling price has remained approximately constant in its relation to cost during the entire period.

In the year 1936 a change in freight policy was made. After that date, freight to destination, which had previously been charged to the customer, was prepaid. Although this amounted to approximately 10 per cent of the selling price of the electrode, it was absorbed by the company without increasing the selling price. This additional

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direct expense further emphasizes the reduction made in manufacturing costs.

Figure 5 shows the comparative selling prices of motor-generator sets used for other purposes by other companies, compared to their twin brothers, arc welders, as made by



* Ratings are welder ampere ratings. Motor generator sets have equivalent current output at similar voltage.

Welders have special controls which are not ordinarily used on motor generator sets. To obtain accurate comparisons of similar equipment the proportional cost of the controls has been removed from the selling price of the welder.

FIG. 5.—(A certified public accountant of Cleveland, Ohio.)

us. The examples shown in all cases are sets that are comparable in size. The reduction in the cost of the welders is largely the result produced by the more efficient labor shown in Fig. 1.

This illustrates in a striking manner the relative progress that has been made in two fields of manufacturing that are directly comparable. No such comparison is possible in the case of welding electrode. However, a comparison of the selling prices of gas-welding electrodes to arc-welding electrodes shows that the relation is the same relatively as in the case of machines. Gas-welding rod sells for about twice the price of arc-welding rod, in spite of the fact the

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gas rod is uncoated, and so should cost much less than the other.

Figure 6 shows the productivity per worker under the Lincoln incentive system over the period from 1932 to date compared with that of a very large electrical manufac-

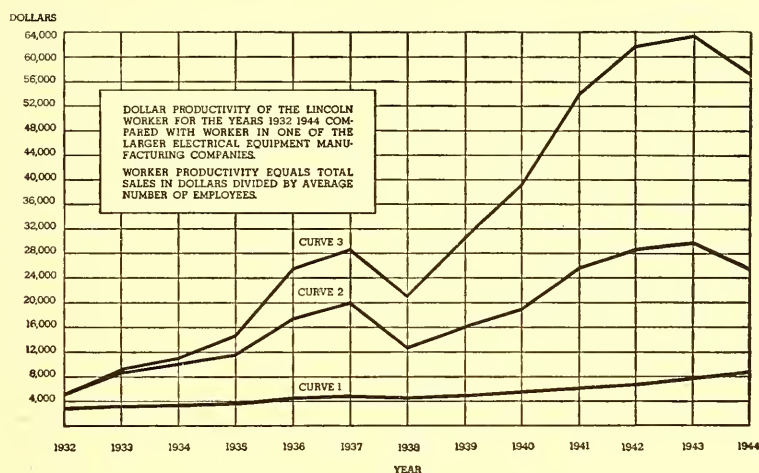


FIG. 6.

turer. This productivity is measured by dividing the total dollars of sales by the total number of employees in each case. If a true comparison of productivity is to be made in these curves, the selling price of the product in both cases must be held constant. It is obvious that the worker does not produce dollars; he produces machines or electrodes. In order to make the comparison accurate, two curves of the Lincoln production are shown but only one of the production of the large electrical manufacturer. The reason for this is that Lincoln selling prices were reduced while those of the large electrical manufacturer, used for comparison, stood still or actually rose slightly.

In order to get a real comparison between the two, there are two curves shown for Lincoln production. Curve 2

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shows the actual dollar sales. Curve 3 shows what dollar sales would have been had the prices of the product not been reduced. Curves 1 and 3 therefore are comparable; curves 1 and 2 are not, for the reasons explained.

Curve 3 then should be compared to curve 1 to get a true picture of what the actual progress has been in production under incentive management, compared to the usual type of industrial operation. Perhaps the comparison is

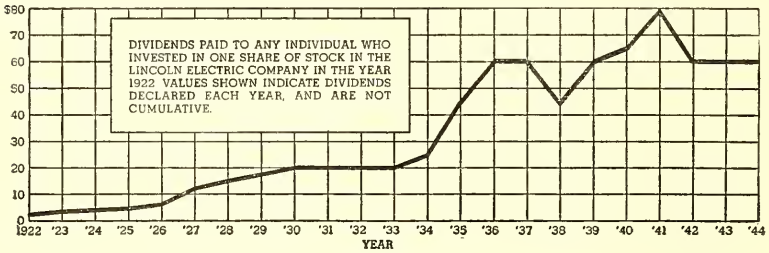


FIG. 7.

hard to believe. I can assure the reader that the curves tell the truth.

Figure 7 shows the actual dollars of dividend per share during the period from 1922 to 1944. It should be noted that the investment in the company increased largely during the period from profits plowed back. The dividend, however, is shown on the same single share which was actually split up 10 to 1 during the period. The per share rate is now \$6 per year, not \$60 as indicated in the figure.

The reader should note that dividends and wages rose together. Although this relationship was disturbed by the war, there is little doubt that under normal conditions the relationship will be resumed.

Figure 8 gives the average selling price of a $\frac{3}{16}$ -inch electrode, which is a standard and most popular size, compared to the wholesale prices of semifinished products during the period from 1933 to 1941. It shows the direction

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of Lincoln Electric selling prices compared to those of comparable products. This price tendency taken by the Lincoln products is directly contrary to that of selling

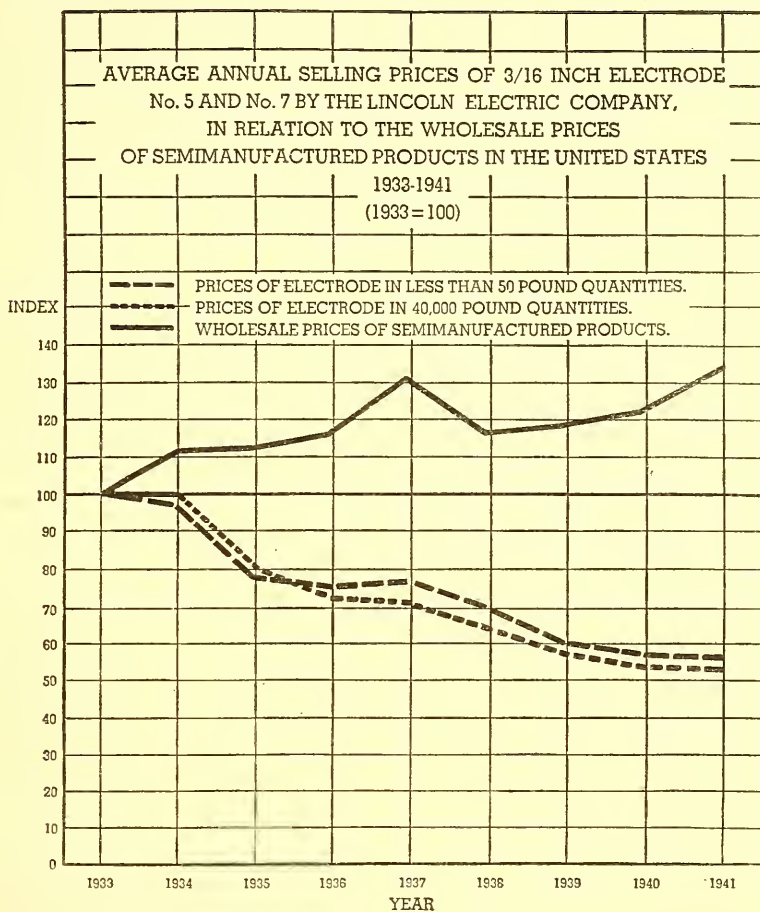


FIG. 8.

prices not only in the machinery field, but also in every other field of semimanufactured products.

The reduction of selling price is not only the result of incentive management; it is a definite "must." Unless it is part of the plan, success is impossible.

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Figure 9 shows the relation between the selling price of arc welders compared to the wholesale prices of manufactured products during this same period. It is closely related to Fig. 8.

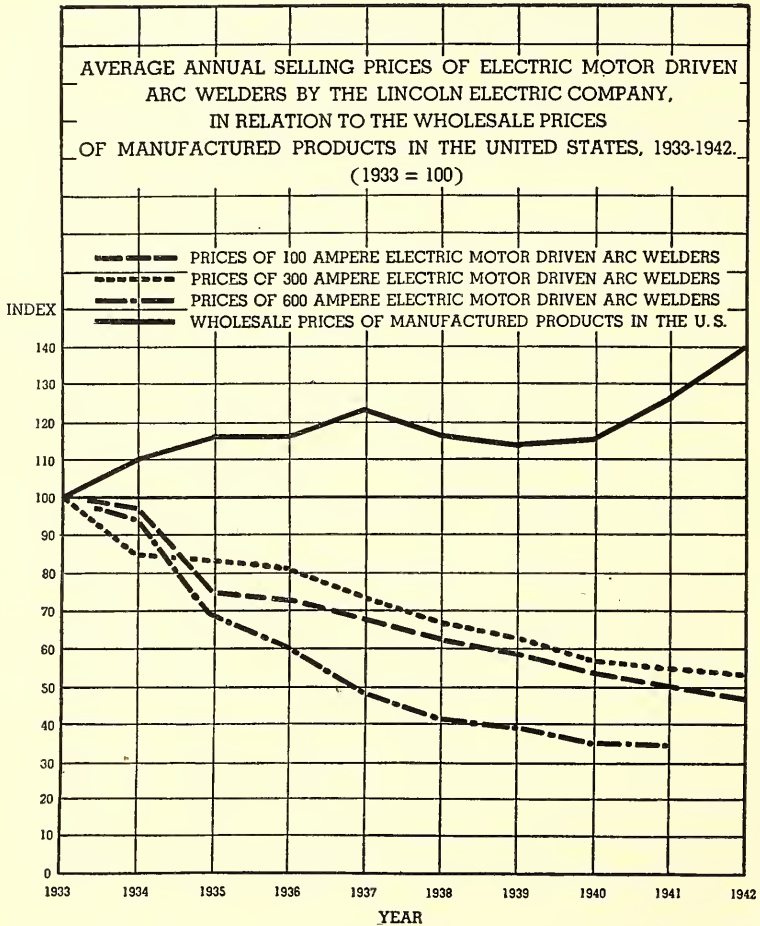


FIG. 9.

The fact to be noted is that incentive management has caused the price of its products to cost less and less. This was true even when all other products were continually increasing in cost.

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It should be noted also that wage rates per hour increased by more than twice in the period shown. This resulted in a continual increase of all other materials. Incentive management took these increases and still reduced costs

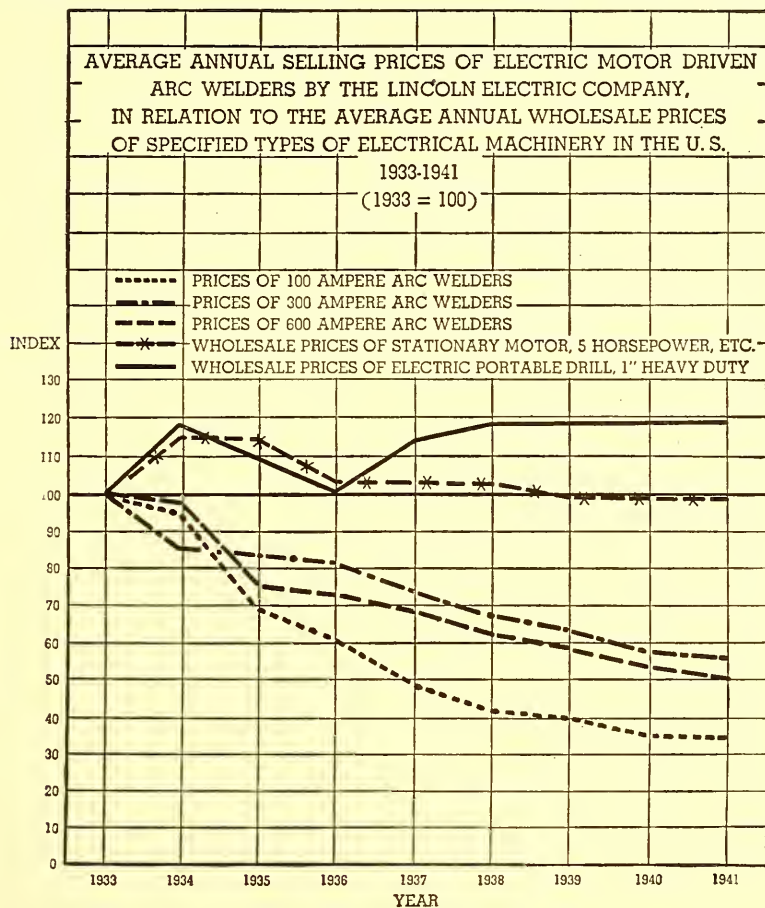


FIG. 10.

largely. Such results are automatic if incentive management is properly applied.

Figure 10 shows the selling price of arc welders compared to the average wholesale prices of various types of electric

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machinery. It merely makes the comparison in the narrower field, namely, the electrical branch of industry.

PERCENT OF
VALUE OF
PRODUCTS

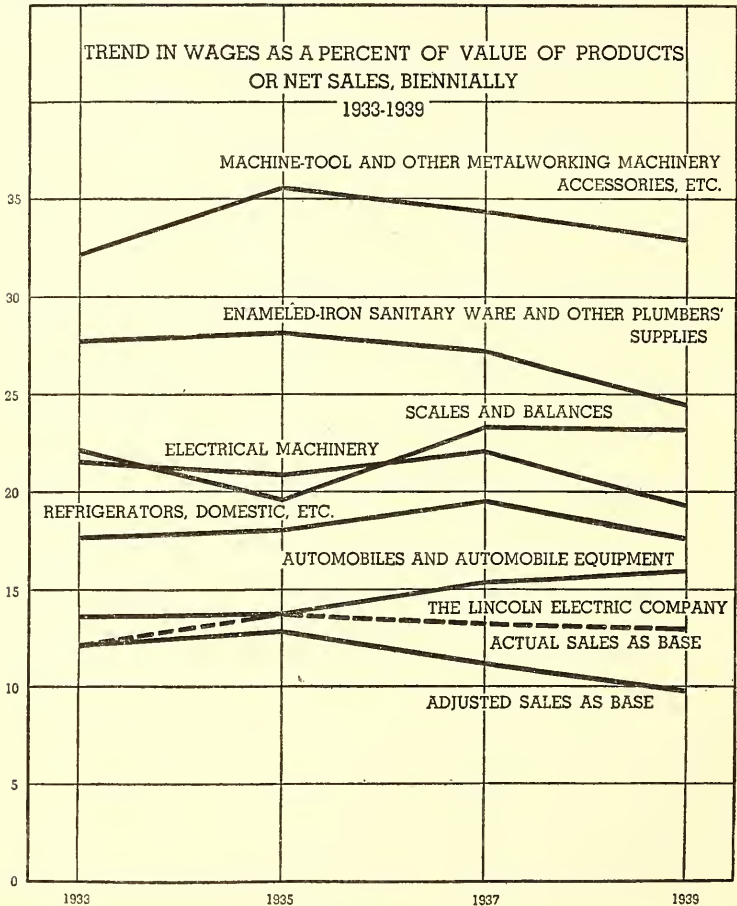


FIG. 11.

There is no marked difference in the upward tendency of prices in any field outside of incentive-managed industry.

Figure 11 shows the percentage of wages to the net sales of various manufactured products. In the case of Lincoln

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Electric, it shows this figure for actual sales in dollars and also for adjusted sales as explained in Fig. 6.

It is obvious that in the case of the automotive products the comparison is not fair, since few automobile manufacturers do much more than assemble parts that are made for them. Much of the labor to produce a car is outside of their plants. In the case of all other products, this

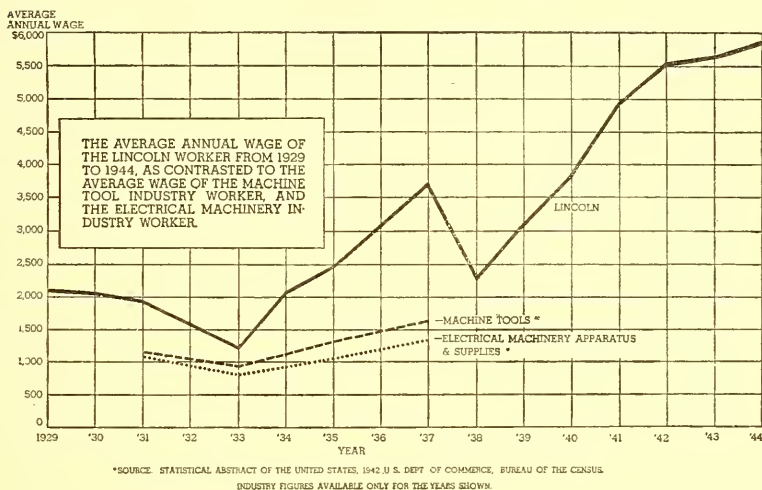


FIG. 12.

assembling of fully manufactured parts is much less in evidence. All these data are given as seems relevant. However, the best comparison is that made in the electrical field. Here the conditions are more nearly parallel and the data will for that reason be most instructive.

These labor costs at the very high hourly rates shown in Fig. 12 give an accurate measure of the efficiency of the system: high take-home pay, yet very low unit costs.

Figure 12 shows the average annual wage of Lincoln workers from 1932 to 1944, as contrasted with those of electrical and machine-tool manufacturers. As an average,

LINCOLN'S INCENTIVE SYSTEM

the wage rates of The Lincoln Electric Company were higher than those in any other manufacturing activity in the world.

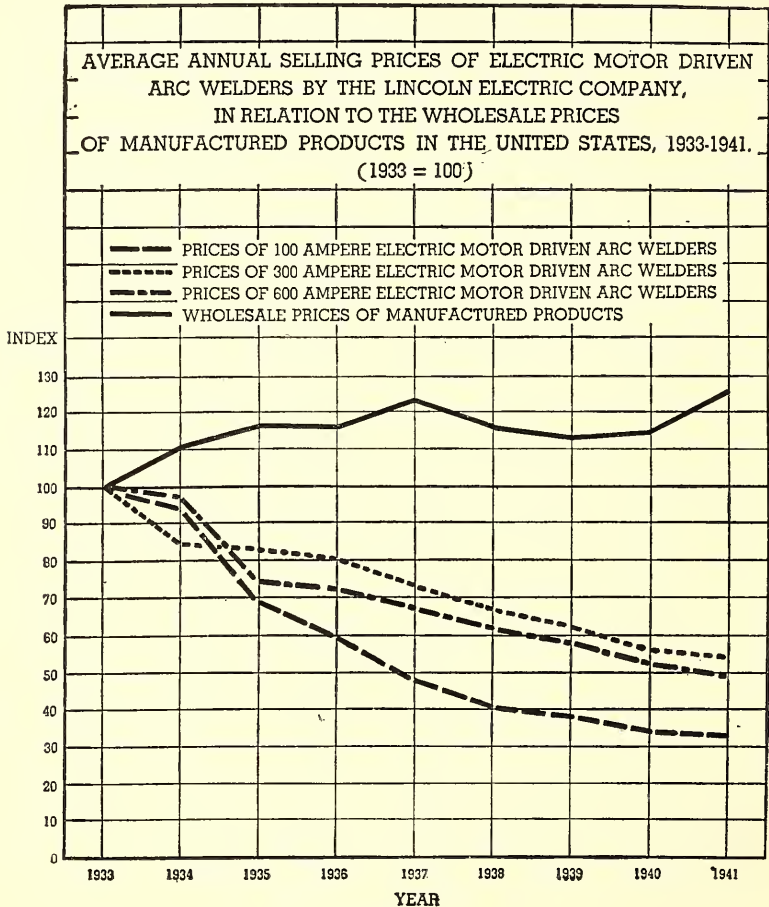


FIG. 13.

It is well also to note that in spite of this high annual wage, as is shown in Fig. 11, the percentage of wages to selling price is a minimum compared to all other manufacturers shown. That is the entire justification of incentive

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management: high hourly wages—high employment—high production—low selling prices.

This figure shows how the worker benefits and to what extent. The previous figures show how the customer and stockholder benefit.

By far the most important fact to our future economy is the following: The number of men employed in the period shown, up to the declaration of war in 1941, increased from 404 to 979. This shows that, when efficiency rises, employment increases and selling prices decline in proportion. This is a complete refutation to the restriction of output theory that is universal labor-union philosophy—a matter that will be discussed in detail in a later chapter.

Figure 13 shows the selling prices of various sizes of arc welders compared to the wholesale prices of goods manufactured in the United States during the same period. It should be noted that the downward tendency in the selling price of the welding machines is diametrically opposed to the selling prices of all other manufactured products. Had reductions in the cost of all products been similar to those which the incentive system accomplished in the case of the products of The Lincoln Electric Company, the cost of material in the recent war would have been reduced by more than 50 per cent. This would represent a saving of more than 100 billion dollars and might well be decisive in our future economy, now threatened by inflation.

Figure 14 shows the growth of production ability among the workers in The Lincoln Electric Company compared to the electrical industry and also to the automotive industry. As before, there are two curves shown for the Lincoln company's record. The heavy line is the proper one for comparison with the other two as explained in Fig. 6.

Note the growing efficiency of production. It is the

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indication of the development of the workers under incentive. They grew in ability, usefulness, and self-satisfaction.

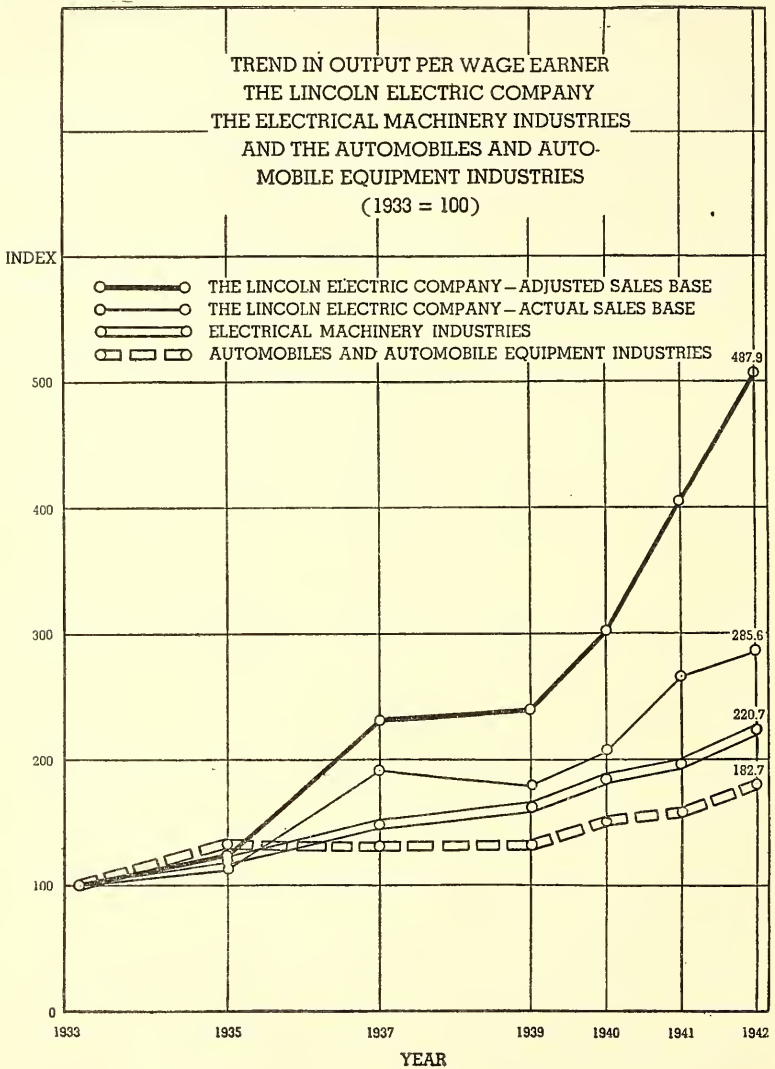
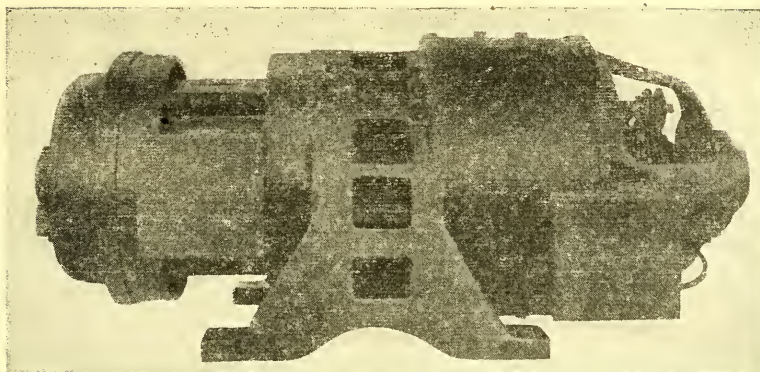


FIG. 14.

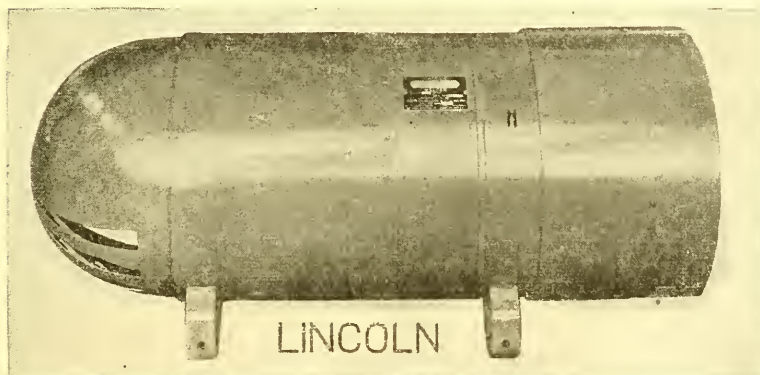
The following pictures illustrate the results of incentive management. They show the costs of individual parts of

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Labor.....	\$ 57.40
Material.....	141.14
Overhead.....	<u>71.82</u>
Total cost*.....	\$270.36
Selling price.....	\$630.00

* Cost figures do not include labor, material, or overhead on two conduit boxes pictured.



Labor.....	\$ 23.16
Material.....	86.63
Overhead.....	<u>31.03</u>
Total cost.....	\$140.87
Selling price.....	\$300.00

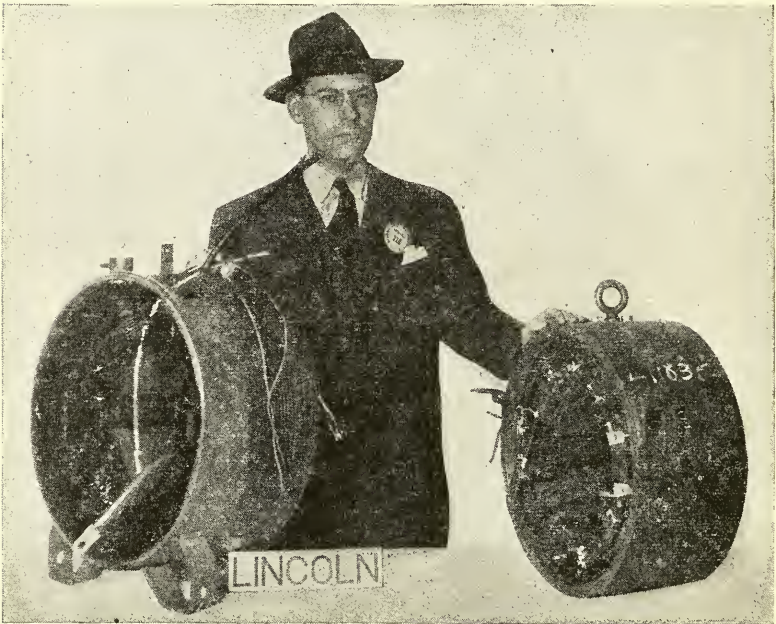
FIG. 15.—Comparison of bare motor-generator sets; 10 kw. capacity without controls.

two motor-generator sets. The one marked “Lincoln” is a welder of 300 amperes capacity. The other is a machine of the same general design but of slightly less capacity.

The comparison shows pictorially the same differences in

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efficiency and resulting costs that have been indicated in the previous curves. The only reason for this further proof is to illustrate by actual examples what has been indicated in the curves. This is a sample of the effects of incentive management on costs.



Labor hours.....	4.21	Labor hours.....	10.31
Labor cost.....	\$ 4.57	Labor cost.....	\$11.27
Material cost.....	\$19.23	Material cost.....	\$32.51

FIG. 16.—Comparison of generator frames.

Figure 15 shows the two machines assembled. The costs and selling prices are standard as of September, 1943. The difference in appearance is of no importance. The engineer in each case had his own ideas as to how his product should look. In fact, each went to a different school to learn design. Obviously there was no collusion.

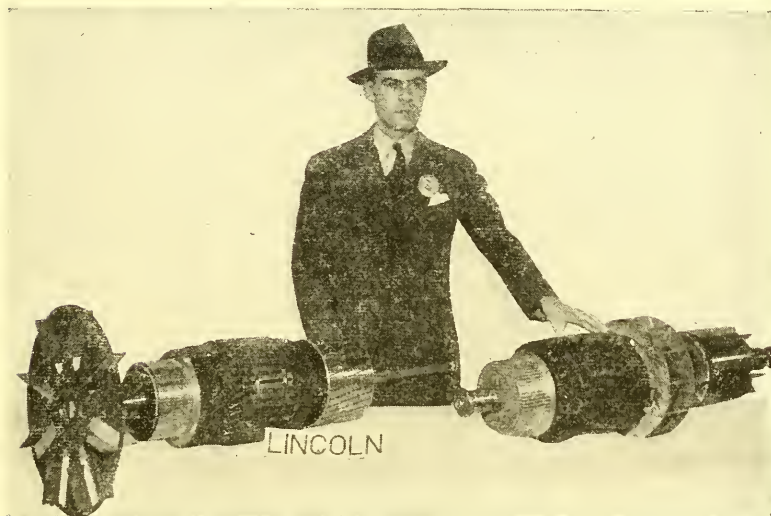
Figure 16 shows the field frames of the generators with their windings complete. It is well to note the larger size

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of the Lincoln frame. Even then the costs were much less.

The relative sizes of the armatures, as seen in Fig. 17, show the larger size of the lower cost machine. However, the relative number of hours consumed is in the ratio of 5 to 27.

A comparison of the end brackets (see Fig. 18) brings out another important fact in incentive management. In this



Labor hours.....	5.15	Labor hours.....	27.71
Labor cost.....	\$ 5.71	Labor cost.....	\$25.08
Material cost.....	\$26.91	Material cost.....	\$38.88

FIG. 17.—Comparison of armatures.

case the labor hours are greater for the Lincoln welder than for the motor-generator set. The reason for this is that the end bracket of the latter is a casting bought from outside the plant. In the case of the welder, the end bracket is produced in our plant of a number of pieces of arc-welded steel.

The hours necessary to make the casting are not shown since the casting was bought from an outside foundry. The Lincoln end bracket was completely fabricated in our fac-

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tory. All the hours used both for fabricating and machining therefore are included.

The design and resulting saving for this new method of production are direct results of the incentive system. The



Labor hours.....	0.90	Labor hours.....	0.71
Labor cost.....	\$1.00	Labor cost.....	\$.74
Material cost.....	\$1.12	Material cost.....	\$2.90

FIG. 13.—Comparison of generator end brackets.

economies speak for themselves. Developments such as this flow naturally from incentive management. It is the source of much of the savings shown before.

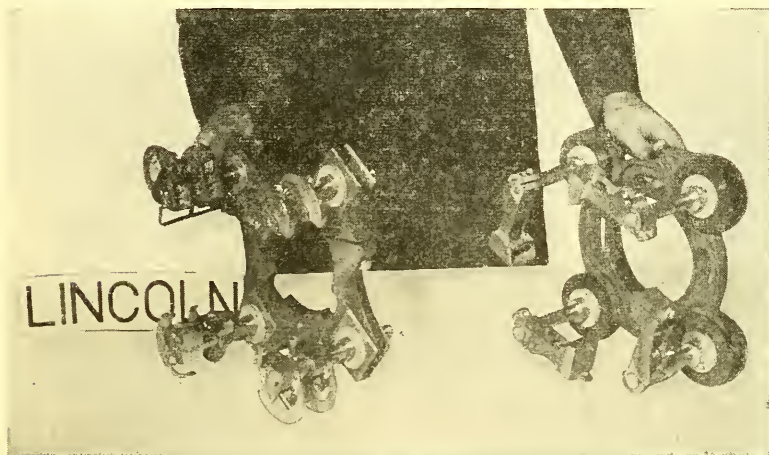
The part shown in Fig. 19 is called a brush-holder assembly. Note that the Lincoln machine has twice as many brushes yet costs half as much.

In Fig. 20 are shown the completely wound stators. A

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comparison of size and cost shows again the relative efficiency of production. The handsome gentleman appearing in all these pictures is there to see that justice is done. Anyway, someone had to hold the parts for the photographer!

These data have been studied by many people. The difference shown in production cost and speed between



Labor hours.....	0.70	Labor hours.....	2.36
Labor cost.....	\$.70	Labor cost.....	\$2.24
Material cost.....	\$2.91	Material cost.....	\$3.02

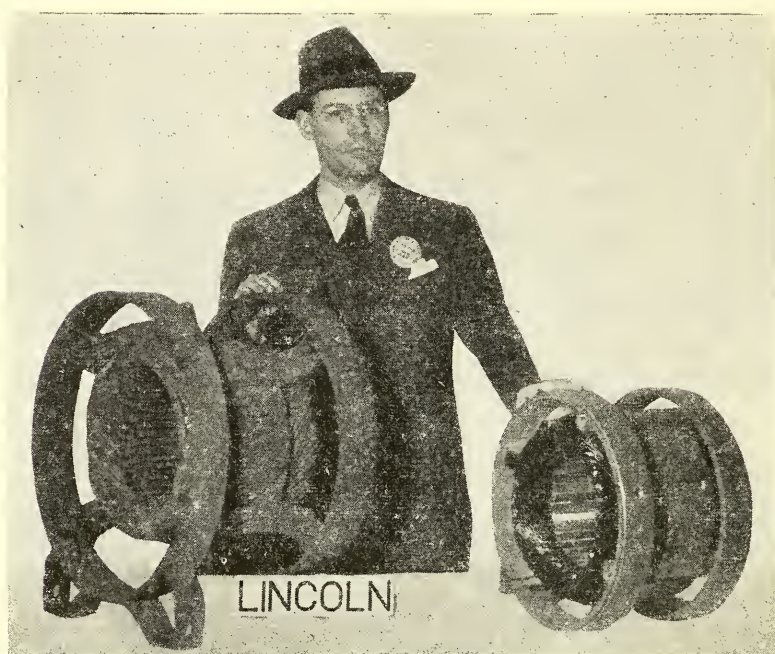
FIG. 19.—Comparison of generator brush holders.

operation under the incentive plan and the usual factory operation has been so marked that reasons entirely foreign to the facts are sought.

It is well to remember that there is nothing in the operation of the Lincoln Electric Company which is different from that of other companies, with the exception of incentive management. This results in everyone in the organization desiring to get the best results obtainable. They desire it enough so that they develop in themselves their latent capabilities. This development results in their doing the job better and better at lower and lower cost.

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The same incentive would work in any operation that requires cooperative effort, whether it is in manufacturing



Labor hours.....	4.0	Labor hours.....	10.58
Labor cost.....	\$ 4.49	Labor cost.....	\$ 8.38
Material cost.....	\$19.79	Material cost.....	\$24.05

FIG. 20.—Comparison of motor stators.

or any other activity. It will work just as well in playing a football game, fighting a war, or raising a family.

FAR-REACHING RESULTS OF INCENTIVE

We have made over a period of years, as shown by the figures, a reduction in the labor cost on our product of as much as 90 per cent. This, of course, affects the cost of the product materially. However, if all the manufacturers who make the parts that we buy were operating under the incentive system, a remarkable result would occur. Obviously, the total cost under those conditions would be

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reduced in the same proportion as our costs have been. That would mean that the price of the electrode, instead of dropping from 20 cents a pound to approximately 5 cents a pound, as shown, would actually have dropped to less than 1 cent a pound.

The standard of living for all should rise in direct proportion to the efficiency of production. Raising the standard of living to previously undreamed-of heights is immediately in our grasp. There will be a full discussion of this in a later chapter.

CHAPTER II

How to Develop the Worker

IN THE following discussion of the incentive system, I shall outline the changes that should be made to apply this system best in our economy. These changes include a new attitude in the worker. I shall discuss also the development of that same worker. The discussion will include the new philosophy in the distribution of the income that incentive management will produce. It will outline the threat of government domination over the individual. With this will be included the disastrous effect on our economy of our present taxing system. I shall then outline the methods pursued in applying the system in The Lincoln Electric Company's plants.

In no other way that I can devise can a more direct approach be made to the problem. It would be much easier for the reader if a formula could be set down which, when applied, would produce the results. This is not possible because incentive management depends on the attitude and enthusiasm of numbers of individuals. It is also impossible to produce a formula that will cover the development of individuals as they grow under the stimulus of the system. These two results are the foundation on which incentive management rests.

RESTRICTED OUTPUT, THE WORKER'S PHILOSOPHY

If we are to make any progress in applying incentive management, we must recognize the problems involved. The first and most serious is "feather bedding." Restriction of output by the usual worker is a fundamental philosophy. He believes that the more successfully he follows that idea the better off he and all other workers will be. He believes that there is only so much work to do and that as soon as it is done there will be no more for some time. Meanwhile, he will have to walk the streets. He feels that his experience over the years has proved the correctness of his philosophy and any argument to the contrary is merely eyewash. He has learned from bitter experience.

When we view the record in cold blood, who can blame the worker for his conclusion? When business was slack, he was tossed out on the street, often with no more thought for his future than was given to any other worthless scrap. The toss-out always occurred when business was slack and that was when all orders had been filled. Hence, the worker concluded that the longer it took to fill the orders on hand the longer a job was available to him.

Perhaps the boss, in his comfortable office, knows this kind of thinking is contrary to all the laws of economics. However, he may never have had to produce three meals per day and the rent from a nonexistent pay envelope. If he had, perhaps he would be less sure of the rightness of his economics. In any case, the conclusion of restricted output is universal, both in unorganized and in union shops. The only difference noticeable to the naked eye between them is that the shop steward in the union shop can determine what is to be a day's work and enforce that limitation. This is particularly true now when the present labor government has made such restriction legal.

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The Governmental backing of output restriction is not necessary, however, since it could be attained by the worker with little difficulty. He knows enough about the machine he is operating so that he could curtail output to any desired point without the usual boss being conscious of it. As the complication of machines used in modern production becomes greater, the ease of restricting output increases. Not only that, but in many cases an operator can damage his machine or the tools used with it to the point where output disappears, with no chance of discovery by his superiors. This condition is not only true but also frequent, as all industrialists know.

CHANGE OF ATTITUDE OF WORKER NECESSARY

From this it is evident that a change of attitude in the mind of the worker is the first and fundamental requirement to incentive management. Unless that change is made, all other attempts in any incentive system must fail. It is safe to say that this attitude change in all workers in any organization must be the foundation on which incentive management is built. It must be the first step.

MAN'S LATENT ABILITIES LIMITLESS

The second step in incentive management has to do with developing the man himself. It is here that the great miracle is accomplished. Man has limitless latent abilities which, under proper conditions, can be enormously developed. Here is the great opportunity for management. What any man is at any time is the outcome of his development up to that time. It is not necessarily an indication of what he can be. His possibilities are well-nigh limitless.

We are told that, physically, man changes completely every 7 years. Hence, there is no part of any person which is the same at the end of a 7-year period as it was at the

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beginning of that time. Whether this is accurate or not of his physical being, it indicates a phenomenon that is indicative of his mental and spiritual being. Under crisis, any man can, and many do, develop previously unknown abilities almost overnight. The sum of these changes determines at any time what any man is. In our ignorance we call this "growing up." It is more than that.

Growing up designates a routine process. Developing one's latent capabilities is more a miracle. The development of man may at times be most revolutionary both in time and in extent. When a crisis comes to any person, he reacts to it automatically. If he rises to the need, he will have taken on new stature that will be permanent growth. If he is crushed by it, he may never recover from the defeat. We are seeing this illustrated daily in the veterans returning from the war. Some have grown; some have faded out. All have changed fundamentally and permanently. That is the change that incentive and crisis have wrought by the war. Fortunately the crises and incentives of peace are much more favorable to proper development of those same latent capabilities of man.

Perhaps we can illustrate the principle involved by comparing the latent capabilities of man to those of a pound of coal. This coal could, first of all, never be mined at all and, hence, would remain forever a latent force. This we call a case of "arrested development," like that of a football player who never rises above the last game he played and continually plays it over in his mind, or before anyone who will stop long enough to listen.

This pound of coal may be mined and then disintegrate in transportation and be spread along the highway as dust. That is like the man who flits from job to job, never settling down. He never develops his abilities.

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This pound of coal may arrive at its destination and be burned in a furnace to make heat. Shall we compare this to the average man who goes through life in the usual way, being outstanding in nothing but completely necessary to the economy of the world?

This pound of coal may enter into a chemical process such as producing artificial rubber. In this case nothing else can take its place. If it were not available, the production of many things could never occur. This illustrates the outstanding man who has developed his peculiar capabilities in an unusual way. Shall we call him the engineer, the minister, and the teacher? If he had not existed, his particular job would not have been done at all.

Last of all, this coal may have been by heat and pressure changed into a diamond, the most precious of all things. We may compare this to the development of man into a genius with all that genius means to mankind. It is well to remember that coal as such is of no value to anyone. Its value comes in its change in character. The same may be said of man and his development.

It is seen that, in each case, the coal at the beginning was the same. The enormous differences in result were caused by the development that occurred. Man in his history follows the same pattern. He can develop in countless ways to countless ends. His history and his impress on the world depend on how he develops the capabilities with which he is born.

Carry the comparison a little further. All kinds of coal as mined differ in ash and carbon form. What can be developed from it depends to some extent on these original factors. Man in the same way is born with more or less latent ability. What he may become depends to some extent on this. However, no man has yet gone as far as he can in developing those capabilities. Hence, this

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native endowment is seldom the limiting factor in any man's record.

The ancient poet rates this latent ability of man beautifully thus:

What is man that thou art mindful of him and the son of man that thou visitest him. For thou has made him a little lower than the angels and hast crowned him with glory and honor. Thou madest him to have dominion over the works of thy hands; thou hast put all things under his feet.

This conception is far different from that of our politicians who talk glibly of the "common man" for whom they plan as though he were one of a flock of sheep. The one thing we may be sure of is that man has abilities far beyond his usual conception of himself or that of his contemporaries of him.

William James puts the matter this way:

The human individual lives actually far within his limits. He possesses powers of various sorts which he habitually fails to use. He energizes below his maximum and he behaves below his optimum.

That notion also is a far cry from that of the politician's "common man." Whether for good or ill, history shows that the conceptions of King David and of William James are accurate. That of the politician may be good politics but rotten economics and morality.

HOW MAN DEVELOPS HIS LATENT ABILITIES

The difference between the politician's "common man" and the man of King David, who has dominion over the world, is the difference between the man who has or has not developed his latent capabilities.

The difference between Abraham Lincoln, the country lawyer, and President Lincoln was caused by the development of the latent abilities of the country lawyer through

crisis and incentive. The difference between the farmer, Henry Ford, and the great industrialist and philosopher Ford of today was the development of the farmer Ford by crisis and incentive. The difference between the farmer, Charles F. Kettering, and the engineering genius and world leader in many things technical was the development of the farmer Kettering by crisis and incentive. The difference between the country gentleman, George Washington, and the founder of this country was the development of that country gentleman by crisis and incentive. No one doubts these facts in these cases. We are not yet so sure that the same thing is true of every man.

The other obvious conclusion predicated on these facts seems more far-fetched. If the crisis and incentive had not occurred in the lives of the men mentioned, none of them would have developed. They would have gone to their graves unknown. That conclusion is perhaps less obvious, but history shows that it is nevertheless true.

The interrelationship of freedom and progress of the individual can be shown in many ways. Perhaps one of the most striking has been our accomplishments in the last two wars. In both cases we were against nations who had prepared for years. We had allies also who had prepared for years. We had made no preparation, yet our entry was the decisive act in each case. If we had stayed out, the decision would doubtless have been reversed. In numbers, we were relatively small compared to our enemies or our Allies. Of war preparation we had practically none. In each case we won the war. In neither case did we do much fighting compared to our enemies and our Allies. Our loss in men was relatively small. Our contribution was not in cannon fodder but mainly in scientific production ability. That was the decisive addition to our Allies. That was the reason for the defeat of our enemies.

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If we consider without prejudice the reason for results in these two wars, we shall have a complete understanding of the virtues of incentive management. Here only was the freedom necessary for the development of the individuals who furnished the scientific knowledge and production ability necessary for success. It did not come from the professional military organization. It was not the result of previous preparation. It was the outcome of the genius of American scientists and industrialists.

It is interesting also to note, since it is all part of the same reason, that those who made the contributions were, in many cases, only a generation or two away from the countries that were defeated by the genius of their own sons. It is obvious that the same genius was latent in the countries that were defeated. The difference was that the ability developed here and became useful. It remained latent there. For that reason and that reason only, we are a great nation now, instead of a defeated and exploited colony.

That freedom of the individual here was the decisive difference is manifest. That our safety in the future depends on its maintenance is obvious. That the present program of killing the liberty of the individual and substituting so-called "security" means death to America as a world power is equally true. It is a decision that we must make. On it depends the continuance of our greatness. On this development depend also our future in peaceful pursuits and the resulting standard of living.

There has not been in all cases the atmosphere that will develop the latent abilities of the individual, even here in America. We know that if the worker is treated as a "hand" by his boss, as a "common man" by the politician, and as a "union man" by many labor leaders, he will never develop his latent abilities. If man is put into a class and becomes

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class-conscious, he thus becomes the same as his class and remains so. He will go to his grave a clod, even when he has the abilities of the genius latent in him. Millions have done so from the beginning of time. Millions more will, under the present philosophy that the "common man" is to be given security by taxing every other "common man" to give it to him. If he is to be a civil-service clerk, he will never be an inventor. If his ability is never challenged, he will never know he has any.

If Julius Caesar, Napoleon, Edison, and even Jesus had been born in India in the untouchable caste, not one of them would have ever been heard of!! How many million geniuses have gone to their graves because of the lack of opportunity to develop, man will never know. That their name is legion is obvious. Therein lie the reason for the opportunity, and the crying need of incentive management. Herein is the next great step in human development. Herein is the vision that is given to us by the psalmist and by history. So is man made a "little lower than the angels."

All are not incipient geniuses. That is obvious. There is a great difference between men. There would be a great difference between men if all developed their latent abilities to the limit. If all were developed, however, there would be an entirely different world as a result. We have seen the difference between the cave man and the present man. We can project that to the ultimate of our imaginations and we shall be far short of the truth. We cannot guess what man can be, any more than we can project what he will do in the next 100 years. We do know that the progress will be greater than in the past century. No one a century ago could imagine the world today. Project that a thousand years and our minds cease to deal with reality. That is only the start of man's latent abilities.

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What has stopped it so far? Lack of leadership. Our leaders have not had the vision to see the possibilities. Many also have refused to allow development of their contemporaries. They feared that their own greatness would be cast into a shadow by comparison. Hence, the theory of the "common man," the caste system, the "old school tie," and "blood will tell."

The first step in developing man is for our leadership to recognize the need and desire to accomplish the purpose.

A great handicap to this development is our failure to believe in the ability of man. We believe in individuals who have developed, but we do not recognize ability as being latent in others. The labor leader would disappear in his present functions if he should accept that philosophy. Many industrialists would be replaced if this fact were applied in industry.

Further, there is the failure of the individual's ambition. He is willing to be sidetracked. He will not pay the price of success by developing his abilities. He is very willing to trade any chance of development if someone will only remove responsibility from him. He is anxious to trade any chance of development of greatness in himself if someone will but promise him security.

The last great handicap in this development is our lack of self-confidence. We do not have pride in ourselves!! We insist on constantly underrating ourselves. This lack of pride is of a piece with our lack of ambition. It is a concomitant of laziness. Although they are partly interdependent, they are not the same.

We must be able to believe that man is the kind of person the psalmist claims. We must see in the "sassy brat" and also in the studious introvert the latent geniuses they may be. We must see in the strange braggart and also in

the retiring and unassuming person the possibility of great things.

All such people must have the freedom to develop the unusual abilities they may have. Perhaps we are more apt to give this opportunity to them than to the usual, normal person we see daily and treat as the "run of mine" person. We must be sure that all have the opportunity. Genius is not a peculiarity, although some geniuses are peculiar. The usual genius is a very ordinary person in most ways. All must have the opportunity. All have some of the marks of genius. All can develop very much further than they have.

The job that is facing the world is to give the incentive and the opportunity for development to each and every person. When this is done, we shall have approached much closer to Utopia than man has ever dared to think he can.

In this statement is implicit the question: How is this development made? There is no universal answer. I am giving one in this book that will point the way in industry. It is not complete; it is only a start. However, it is, without doubt, in the right direction.

There is one principle in this development that is fundamental: freedom of the individual is essential. Freedom means responsibility. It means opportunity. It means pride in ourselves and the place that we have created for ourselves in the world. [No free man ever allowed himself to infringe on the rights of others. No free man ever allowed his own rights to be infringed without a fight.] Here is the first precept of the development of man. Here is the first principle of incentive management.

The leadership of this country, both governmental and industrial, has a very grave responsibility in this matter. Here is the nation's greatest national resource. Here is

the ability on which our safety, our standard of living, and our progress in all matters rest, yet we give it little attention and take no responsibility for its proper development and use.

The attitude of our own government has been largely the regimentation of its people in all matters in which it took action. It has also more recently by taxation, which is steeply punitive to effort and ability, not only removed the incentive to develop but made the penalty so great that no one would dare develop to his limit.

American industrial leadership is not punitive in its attitude toward the individual. It does, however, in most cases, so classify and group men that the incentive and crisis necessary to the development of their latent abilities are left largely dormant.

The discovery, development, and use of these abilities are the crying need and the greatest opportunity of the future leadership. We in America have done better than any other nation of the world in this matter, but only to the extent that we put fewer obstacles in man's way, not that we promote development itself.

Edward Markham has put the matter baldly:

O Masters, lords and rulers in all lands
Is this the handiwork you give to God?
This monstrous thing distorted and soul-quenched
How will you ever straighten up this shape?
Touch it again with immortality
Give back the upward look and the light
Rebuild in it the music and the dream.

The conclusion of greatest importance to our subject is the following: There are countless thousands who would have developed as did our national heroes and many others who could be cited, had the proper incentive and crisis occurred to them as they did in the cases mentioned.

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Perhaps it is useless to attempt to prove this so that all would accept it as one would a mathematical problem. For the author's purpose it is only necessary to refer to the experience of the reader and the friends with whom he has been in close contact over the years. The development that has occurred in these cases is all that is necessary to demonstrate the truth of the principle cited.

INCENTIVE APPLIED TO INDUSTRY

This development of man is the second fundamental principle necessary for the success of incentive management. If we can develop an individual's latent abilities and have him desire to use these abilities cooperatively for the success of the operation, we have accomplished our end. That is incentive management.

This formula sounds simple and it is, but few have been able to accomplish that end in large operations. There are many factors that have hindered progress in this direction. Some are the result of custom; some are the result of cupidity; many are the result of carelessness in management. All must of necessity be eliminated if we are to have the results that can be accomplished by the cooperative efforts of self-developed men enthusiastically doing their best in useful production.

It is obvious that if the application of incentive management were simple it would have been made long since. It is obvious also that all management desires, particularly now, is to accomplish such results. There is no claim more often repeated by management than that of "cooperation," "one happy family," "all for one and one for all," etc. There is little doubt that many think they have accomplished that desired end, for so they claim. The facts, however, prove otherwise. When, as is shown herein, it is possible to increase nonincentive production records by

from three to twenty times, obviously there has not been cooperation before, no matter what is claimed. When it is found that such increased production is the result of only beginning to develop the individual and his cooperation, the ultimate production possible to incentive management is almost unbelievable. We shall see in the years just ahead as much difference between the production of the present routine management and that of the eventual incentive management as there is between the hot professional golfer and the most incompetent dub.

THE NEW GOAL OF INCENTIVE MANAGEMENT

In the development of the latent abilities of men in industry, leadership is essential. In this respect, industry is no different from any other cooperative activity. Leadership cannot be given to a man by the action of a board of directors. Formal action may make a certain man the executive head of a company but it does not necessarily give him the required leadership.

Leadership is decisive in the history of man. We are as a world what our leaders have made us. We shall be in the future what our leadership determines. Leadership is equally decisive in incentive management. Unless proper leadership is put at the helm, the results will not be satisfactory.

The successful leader in incentive management will follow a philosophy, but he cannot state it in a formula. It is well to remember also that the leader can and will develop under the crisis and incentive, as will all others in incentive management.

It is trite to say, but nonetheless true, that in even a small organization the workers as a whole know more about any subject than does the boss himself. Any industrialist may at first fear and resist such a fact with its

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implications. He cannot "boss" the job as he has been accustomed to feel he must if he is to recognize that fact. Many executives insist on domination in spite of that. Since they can determine whether their subordinates eat or not, they can get at least routine compliance with their policies no matter how shortsighted they may be.

The executive with real leadership need not fear the fact that he cannot "boss." His job is not to dominate but to lead—a very different thing. A leader will be helped, not harassed, by subordinates who know more than he does. Here will be the crisis and incentive that will make him rise to new heights as he leads such a group.

NEW LEADERSHIP TECHNIQUE

A new approach will be made by the leader in his plans if he is to follow the incentive method of management. He will get from his subordinates' superior knowledge the assistance they can give, in addition to his own limited ability. He will not be dominant. He will, however, be successful. The boss who adopts incentive management will not hesitate. He will use the collective knowledge of the group, submerging himself. In doing so, he will utilize such a program as follows:

First, he will recognize the group abilities. The recognition, development, and use of these abilities are his problem, as well as his opportunity.

Second, he will recognize that the amount of progress possible in his activity is limitless. Everything he now does is wrong compared to the ultimate possible result. The reason that progress is slow is the failure of leadership properly to recognize that far horizon.

Third, he will recognize that he is dealing with men who are much more complicated than any machine but who have possibilities far beyond those of any machine.

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Fourth, he will recognize that what has gone before in industrial management has made a very wide gulf between management and men. That gulf must be bridged.

Fifth, he will recognize that incentive management will eventually be adopted. The result from then on will be accepted as a matter of course, as has every advance from the beginning of time. He is only just ahead of the parade.

Sixth, he will recognize that it is not a mathematical formula that is sought. If it had been, it would have been applied long since. The human mind and spirit are amazingly complicated mechanisms. They have certain fundamental reactions but beyond that they are as varied as the colors.

NEW LABOR-MANAGEMENT UNDERSTANDING

In this new approach, we must develop the faith of the worker in his management. That is fundamental. Since we wish to develop his faith, we must also increase his pride in himself and in his work. The only way that we can increase the pride of the worker in himself and his job is by putting him in a position in which his skill and application will be rewarded in accordance with his production. His reward must be commensurate to his skill and application. Only so is a spur given to his development and his ambition to develop. The only way this can be done is by the application of a plan that will pay him accurately for what he does, in exact proportion and directly. That plan is some form of piecework.

To state such a fact is to wave a red flag to the usual worker. There is no other possible method of fairly rewarding production than by piecework payment, yet it has been handled by management in such a way that the average worker thinks of piecework in about the same way as he thinks of burglary.

Labor has some reason for its conclusion regarding piecework. The details will be discussed later, but it is safe to say that whether the man is right or not, he thinks that piecework has been used to take advantage of him and he resents it. Whatever the facts may be, unless the worker wants to play the game with management there is little use of attempting any incentive plan of wage payment. Management must sell the plan to the worker. Anything less will fail, for management cannot force it, as long history has proved.

If there is one place where management's word must be good, it is in dealing with labor. When management says to a worker, "I will pay you 10 cents each for machining these parts," that contract must be as valid and respected as one that is backed by a mortgage on the plant.

The contract with the worker is far more important to the success of the company than any other. Many industrialists do not recognize that fact. I was very much alive to this in a conversation with another industrialist recently. I had finished showing him our plant and had spent a long time explaining our method of piecework payment, all at his request. I had stressed the fact that our piecework rates were guaranteed forever. I had talked long of the fact that this was necessary to the success of any labor policy. He had nodded his head in full acquiescence. At the end he said to me, "Mr. Lincoln, how do you cut piecework prices?" Where does one start in dealing with such people?

IS MANAGEMENT SMART IN ITS POLICY?

I think that an even more serious complaint against management can be made than this. Management, it would seem to me from its labor policies, is not always aware that the overhead on any factory operation is usually far

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greater than the direct wages. Hence, when a job is done more quickly by any system, even if the man is paid the same amount per piece as previously, the saving made by the company is much greater than the man's increased earnings. Putting the matter another way, overhead cost per hour, which consists of foremen, watchmen, cleaners, taxes, depreciation, insurance, etc., is largely constant. If the production can be increased, this overhead cost is reduced per piece in the same proportion as the increased speed of production.

Any scheme that will increase production without increasing the labor cost per piece will give a much greater return to the industries than the increase of wages to the worker. It is easy to see therefore, how doubly serious output limitation becomes.

PUBLIC ATTITUDE TOWARD WORKERS

There is another dangerous attitude toward labor, which is taken by the public generally: that the worker is in a caste out of which he rises only with much opposition. He can make so much wages and no more without question. Production records are of little importance when the worker makes more than a certain preconceived amount. This supposed proper amount is not true of workers in other fields, such as an author, an engineer, an inventor, or a manufacturer. It is true, however, in the case of the worker in a shop. If he goes above that preconceived maximum, the public is shocked.

I was very much impressed with this fact as I listened to a man from the War Labor Board who was making a speech relative to the power of incentive in increasing war production. He told of a case in which he had forced a plant to go to piecework. He told of one job on which, because of the skill of the man and his imagination, the worker had

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been able to increase his production of a certain piece by seventeen times. As a result, this worker's piecework earnings rose to more than \$17 per hour. When he was asked what had been done to this able and patriotic worker who had made this contribution to the war, he answered that the price had been cut. He said no worker could be allowed to make \$17 per hour.

· FAIR DEALING STILL THE BEST POLICY

Fair dealing and common honesty are not only legal but are fundamentally the best policy. It may be added also that they are usually profitable. No one has as yet been able to make a policy of cutting the corners profitably over the long run.

If the only result of such policies was limitation of production, it would, of course, be serious. However, that is not the greatest loss. The stagnation of the man and his entire failure to develop are the much more serious outcome. Development of the individual follows only when the desire to develop is at fever heat. That cannot occur when the man is planning to restrict output.

HOW IS THE WORKER DEVELOPED?

How, then, is the worker to be developed? The answer is by crisis and incentive, as is true of the development of all people. The problem then is to give the needed crisis and incentive in factory operation. On that largely depends the success of incentive management with its enormous increase of production, wages, and profit.

The incentive that is most insistent in all people is the development of self-respect and the respect of their contemporaries. The worker wants most of all to be a man among men. Earnings that are the reward for outstanding performance are one evidence of this ability. Progress in

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his position and responsibility are others. He wants the feeling that he is part of the team. He wants to feel that his efforts are necessary to make the activity a success. He wants to feel that he has been a part in a project that is worth while and succeeded because his ability was needed in it.

MONEY ALONE WILL NOT DO THE JOB

To show how little we respect money alone as a measure of success, we can cite the miser who may be very wealthy but who is never respected and does not respect himself. Money alone is not the measure that determines whether one is a man among men, though a man may use money to buy that position. Joe Glutz in England has in many cases paid tremendous sums of money for the mere distinction of being able to call himself "Sir" Joe. He feels in such cases that the money was well spent and so do many of his contemporaries.

WE WANT THE RECOGNITION OF OUR CONTEMPORARIES

Another spur of the same kind is the feeling by a man that his skill is unique and is respected by all. The examples of this principle of pride in our skills which are respected by our contemporaries are endless. No galley slave ever had much desire to pull a good oar. His hard work was never known nor could he be recognized as better than others. The only thing he could look forward to was to escape the lash of the overseer and an early "out" from his slavery. The same pulling at an oar takes place every year at many rowing races. The result on the oarsman, however, is radically different. He has no fear of a whip, yet he puts into the job an enthusiasm and power far beyond those of any galley slave at any time. He feels amply rewarded not only for the heartbreaking work of

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that day but also for the endless preparation in the many previous weeks of training. The job was the same in both cases: pulling an oar. The reaction on the man was entirely different.

Countless cases of the same kind can be cited: the record-breaking race of the athlete compared to the running retreat of the coward; the standing of the waiter compared to his master when each is passing food to the master's guests. In all such cases, the deeds are the same. The attitude of our fellow men toward those deeds is diametrically different. The incentives that result from these same attitudes are as far apart as the poles.

The other means of human development comes from crisis. This may be a job quite over the head of a man but to which he climbs by his own efforts and ingenuity. It is at first something beyond him to which he, by unusual effort, grows. That growth is what is meant by the development of his latent capabilities.

Perhaps this sounds like theorizing. Politicians who think of the worker in terms of the "common man" will never understand. Management that thinks of the worker in terms of "hands" and "man-hours" will not be impressed. I am speaking to those rising industrialists who already know that the human being, no matter what his station in life, is "a little lower than the angels." Perhaps even the man himself at first does not know it. Perhaps no one in contact with him agrees to that, but the evidence is conclusive as to his possibilities. It is management's job to make it real.

The reasons these possibilities have not become realities is the lack of development of these latent abilities. That is because of the failure of man's contemporaries, not the failure of the Creator. Surely we do not think that all the useful things in the world have been found. We are

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sure they are not. We still drill, prospect, and analyze. If we are sure of the existence of these inanimate treasures, which we have never seen, we do not doubt those animate abilities already partly realized and also promised by our Creator. The evidence in tens of thousands of cases is conclusive.

WHY LATENT ABILITIES DO NOT DEVELOP

The only reason these latent abilities are not developed is because we treat man so that he does not desire to develop. If we confine the greatest athlete in the world to a small cell in a jail, he will never produce a record. In fact, if he is left there even a short time, he will be an athlete no more. His abilities will disappear because they are not used. The same is true of the mental and spiritual abilities of every man.

Surely we do not think that industry in its handling of labor is encouraging in any large way the development of the latent capabilities of man. When our leadership develops resentment and opposition, we may be sure that the God-given abilities lying dormant will continue to do so. I am not criticizing the manufacturer. He is merely following the leadership of government and the public generally.

INDUSTRY FAILS HERE

I have dwelt in some detail on this matter since it is so fundamental. Man's development of his latent abilities is so completely tied in with his desire to develop them. There must be great incentive for great development. However, industry has almost entirely failed to use this very obvious spur in its handling of men. Perhaps the influence of the military may be the reason for this, since all armed services treat the understrapper as a clod who is

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not entirely human. Whatever mind the underling may have is never used. As a matter of fact, the military setup is such that if the lower orders should use the intelligence they possess, they would often be punished and in extreme cases shot. Authority is of much greater importance than results in the armed forces.

The attitude of the boss toward the worker has taken much from this military concept. The results have been what one would expect. Authority has been dominant but progress has been held to the ability of the boss, which is never large compared to that of the whole organization.

Over the past two thousand years we have successively tried several schemes in our economy. The first was slavery. Then came feudalism under feudal ownership of the means of livelihood. Feudalism was lately replaced by private enterprise. Each of these steps in the freedom of the worker has resulted in an advance in the standard of living for all. Each step has resulted in a higher place in the scheme of things for the worker. Each step has developed our ability to increase efficiency. Each step has resulted in rapidly progressing education and spiritual development of the individual. Each step was violently opposed by the best people of the times, and in each case the best people were wrong.

We are now faced with the problem of resentment in our application of incentive management. The only obstacle to be overcome is tradition. Successful industry has already overcome this in countless cases in perfecting its product. It will not be unusual, therefore, to change its methods in labor-management relationships.

The following suggestions may show a possible way. This has succeeded in our own case; it may be good in the cases of others.

First, a properly developed and applied scheme of

piecework payment for work done. This must be a challenge to the man and a proper reward for all that he does, both with his head and with his hands.

Second, a plan the organization follows in advancing all men on *merit*. All better jobs should be filled from the inside. All men should know that the best man rises because he is the best man and for no other reason. The organization should originally take its men from school and then keep them until their working life is over and they are retired. Every position from the chairman to the sweeper should be filled from within, if at all possible. Leadership should make it possible.

Third, give to all men with ambition jobs that at least occasionally are beyond them and hence challenge their ability. Thus is latent ability aroused and developed.

Fourth, make sure that the plan of the activity is known to the men. Make sure that all of them know what they are doing and why and how well they are doing it.

Fifth, have the whole organization share in the prosperity of the company. Since the company under incentive management will make enormous profits, make sure that the worker, the customer, and the stockholder share in these profits in a proper way.

There will be further discussion of this phase later in the text. However, it is well to remember that the worker, the management, and the consumer have the same interest in the company's success. The worker in the final analysis buys the product that he himself makes. Reducing sale prices automatically increases his buying power as does increasing his wages.

The job of leadership in incentive management includes (1) the understanding of the inherent greatness of man and (2) the development of that greatness by cooperation in a useful activity. The plan is simple. The reward is great.

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Man has always been underrated by his contemporaries. Some of the time this was part of the program that the upper classes employed to establish themselves in position of authority over those whom they considered below them. Partly it has been the desire of the master to keep the slave in bondage. There has never been a time when there has been a concerted attempt to develop man to the stature that the Creator intended and that we, his contemporaries, have seen in many cases.

In past generations, America has been that beacon light which has shown the world the way to freedom, which is the only atmosphere in which the individual can develop those latent capabilities that make him the man his Creator intended. America still has that opportunity. We must not fail.

CHAPTER III

Why New Leadership Is Necessary

NO ONE can view the present war between management and men, between racial and religious groups, without realizing that the leadership we have been following is outmoded. New leadership in our thinking must be found. New directions must be discovered. The indication of these changing attitudes is the present doubt as to the propriety of our distribution of income, the doubts as to the dignity of man and his labor, the undercurrent of criticism of certain races and religions. These are all dangerous in their threat, but they are normal under the present stresses. The eventual outcome will settle the problems. Thus is progress made.

THE PRESENT SOCIAL REVOLUTION

There is a good deal of surprise shown by many who do not recognize the revolution that is taking place in our present thinking on many things, for example, in our doubt regarding the proper distribution of industrial profit. From this lack of understanding there also stems our unawareness of the change that is taking place in the social and economic position of all individuals relative to each other. Manifestly these two conclusions are interdependent.

Five hundred years ago the relative classification of

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individuals was definite and accepted by all in both the master and servant classes, and also in the classes in between. The servant and master were content in their positions. Distribution of income on the basis of feudal lord and serf was accepted by all concerned as a proper arrangement.

Why has this established and accepted social system disappeared? The answer to that question will make understandable the present social upheaval with its industrial and racial conflict. It will also indicate the pattern that the future will follow as long as the present tendencies are continued. We shall understand then why John Lewis and his coal miners can threaten the future of all Americans without much resentment from those thus hurt. We shall understand why a clever politician working solely for his own ends may be elected to office by stupendous majorities. We shall understand why the average man values his government-promised security above any opportunity, in spite of his loss of freedom, which is a necessary consequence. We shall understand why the worker is glad to sacrifice his individuality to achieve through collective action an advance in his social position relative to his boss.

The old classification, which was accepted under former economies of feudalism and slavery, of master and man, depended on a real feeling of superiority by the master and a real feeling of inferiority in the serf or slave. When that feeling of difference disappeared, the serf's acceptance of that relationship disappeared with it. Universal education and better health were decisive in this change.

MASTER AND MAN

In order for the master to feel masterful he introduced the idea of "blood will tell." This rather funny theory

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stems from the idea that the mastery of one over the other is the result of the master's being born a superior being. He claimed God-given attributes that were passed along from generation to generation of the master's family. These attributes, according to his thinking, made the possessor more able, more intelligent, and more superior, in every way and under all conditions, than the serf or servant. There is just enough effect of health, education, and proper food on our offspring to produce some indications of plausibility in the theory. Given poor food, poor housing, poor care, and no education for generations, and the result on the offspring in health, intelligence, and confidence is real, as we have seen. Remove these handicaps and the difference disappears as all men develop their latent abilities normally. As a matter of fact, the self-styled master family usually rots out from lack of tough moral fiber which can develop only in overcoming hardship.

The industrial revolution removed these handicaps on the serf and servant classes. Any actual difference quickly disappeared. We are now seeing the so-called "lower classes," because of universal education and proper living, take their places as equals in every way of the so-called "upper classes." We are also seeing the upper classes accept this change in a bewildered sort of way. It has happened so fast that many do not really know what it is all about. They are reacting like a prize fighter who gets a clip on the jaw which makes his knees sag. He knows something has happened but is not at all sure what.

CLASS DISTINCTION DISAPPEARS

The thing that is most surprising is the willingness with which the revolution is accepted by the upper classes. They seem to be eager to show that they never really believed that there was a class distinction. They fawn

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on the lower classes to show their democracy. They lick the boots of government which helped the servant pull them from their self-assumed superior position. This shows more than anything else how fundamentally unreal is this imagined difference. It was a pose that is, seemingly, even funny now to the posers.

We see this same change illustrated in the dominant attitude that union labor takes toward management and management's meek acceptance of that dominance. We see it in the drive of nations with poor natural resources to take a larger share of the world's wealth from those possessing it. We see it in the drive for a higher standard of life by those who are in positions of small income. That all human society will be organized on a new basis because of these drives goes without saying. That many of the results from this revolution will be good also is sure.

REARRANGEMENT OF PEOPLE

The chaotic condition at the present time is due to the fact that people have not determined what the new reorganization of the world is to be. The fact that so-called "good" birth, whatever that may be, or the possession of money is no longer accepted as the measure for determining leadership is obvious. However, we must still have a method for determining who is to be the new leader. The one thing on which we all insist is a leader whom we can willingly follow. No other organization of our economy has ever before succeeded or can now succeed. The groping for leadership is the reason for the present chaos. This will continue until we find the new realignment. We are therefore now determining what the new standards for world organization will be. When the foundations of our judgment change as completely as has been true of late, it will take some time for our new judgments to settle into a conviction on which society can rely. We do not come to

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a wholly new conception of the economic setup without much violent debate and bloody sweat. We also do not arrive at a conclusion quickly. New guideposts are being placed, but we shall take some time and make many false starts before we are sure of our new direction and destination.

There is, however, some indication that we can safely follow already. The rise of the worker to new dominance is the result of the new freedom that has been the outcome of American democracy. Because we had freedom, the individual with ambition and native ability rose here to an extent totally unknown in any other part of the world. Because of this progress we have blazed a trail that all wish to travel. Especially is that true when foreign countries see their own people failing to develop at home but striding forward here. They are still bewildered but have some faint glimmer of understanding. In any case, they want the standard of living that they see being developed here by those emigrants who left their shores to make their home here.

The great progress that has been made in the United States industrially stems from the fact that here we have for generations had freedom of opportunity for all, so they could develop their latent capabilities to any desired limit without restriction. Although that freedom has now largely disappeared, the geniuses that were developed under it have led us to the present high state of accomplishment which is the universal wonder. Nowhere else in the world is the freedom necessary accorded to them for such development. Hence, they develop here and do not there. They become great because of the opportunity present here. They go to their graves as undeveloped routine workers there. That is the greatness of America. That is the foundation of our progress.

The results that these geniuses developed are almost

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unbelievable in the light of previous history. For example, the expectancy of life has doubled in the past one hundred fifty years; the population of the world has doubled as a consequence. Most germ diseases have been eliminated or are largely controlled by the advance in medicine. Starvation, which formerly was continuously present in some parts of the world, has disappeared in all civilized countries. The mechanical arts, such as transportation, communication, electricity, and chemistry, have taken strides that have made our lives very much easier and fuller.

It is safe to say there has been more progress in all scientific activities in the past fifty years than had been made in the same regions in the previous fifty million years. In spite of this tremendous advance the rate of progress is at a peak now. Hence progress, such as above listed, will be greater in the next fifty years than in all previous history, tremendous as that has been.

This is true of other things than technical progress. It is as true of incentive management as it is of radar. It is as true about the standard of living as it is of penicillin. The great problem that we face in picking our new leader is to be sure that he can take us in these new directions. He must be in the forefront of progress. He must be the guide who will continually point to the new, greater, and more attractive world. He must be able to show us how to accomplish as well as to aspire to this new world.

WHAT IS TO BE THE NEW LEADERSHIP?

It is not an easy matter to alter the thinking of the world on any subject. Old ideas are hard to change. It is easy to follow the customary groove. This will be the great problem of the new leader. The world has often clung to a preconceived notion even after it has been disproved.

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As an example, consider the attitude toward Galileo when he first announced his belief that the world was round instead of flat, as all the best minds then held. The statement was so disturbing that they felt called upon to act at once. There was no thought of reviewing their opinion on the matter. That would have been sensible and no man is sensible when questioning his own ideas. The easy thing for the security of the best minds was to make Galileo retract his statement. They therefore fixed the whole matter up by explaining to Galileo that he could either retract his statement to correspond to their thoughts, or be completely barbecued at the stake. Thus was the matter concluded. Galileo, being a sensible man, knew that the shape of the world was a settled fact and no one could do anything about it, but that barbecued Italian was something within his power to prevent, and so he retracted.

We now think that the best minds of that day were funny. Be assured that five hundred years from now many conclusions that we all hold as fundamental immutable truth will be even funnier.

AMERICA'S PROGRESS THE RESULT OF FREEDOM

The leadership developed under the American system of freedom has been able to keep us from the grooves that habit forms so that we progress in matters industrial at a staggering pace compared to all other nations. Because of this rapidly moving development, with its opportunity for any one who has the determination and ability to succeed, our progress has been the wonder of the world. No other people could meet our competition in many phases. It is because of these facts that 130 million Americans, with only 10 per cent of the man power of the Allies, not only armed their own forces but furnished a very

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large part of the tools of war for Russia with 200 million people and unlimited natural resources. It is because of this that America furnished most of the tools of war for China with 400 million people and great natural resources. It furnished much of the fighting equipment for the British Empire with 650 million people and unlimited natural resources. This was true not only of production but also of technical advance in material.

It is no overstatement to say that the American industrialist won the war for the Allies. It is also true that if a hundred thousand of the American industrial and technical geniuses had been providing material for Germany and Japan, instead of the United States and her Allies, the results of the war would have been reversed. This is not only because of the increased production that would have been made in those countries, but also because of the loss of that leadership in this country. This statement is obviously true.

There is no attempt in that statement to depreciate the valor and abilities of the American troops. They were magnificent. However, wars are won by machines and the mechanical ideas that come from a relatively small number of industrial scientists and managers, not by soldiers alone.

SPECIFICATIONS OF THE NEW LEADERS

The specifications of the new leaders therefore are fairly evident. The kind of man that we willingly follow at this stage of our national development is determined by the direction toward which our national needs and desires lead us. Only such leadership will we recognize at this juncture.

The new leader will be an industrialist because our American civilization largely revolves around industry. He will be a scientist because the progress in science will be the controlling factor in industrial development. The new

leader will deal with man and his development; there is his opportunity and his challenge. Progress in industry will be the outcome of this human development. The machine, which heretofore has been stressed, will be relatively less important.

The new leader will go about with his head in the clouds and his feet firmly planted on the ground. He will know that the progress possible is unlimited but that not all change is progress. He will have the clear vision to distinguish between progress and regress.

The new leader will have a new approach toward wealth. He will be a producer, not a collector. He will produce wealth since that will give him satisfaction. He will not have time or inclination to corral much for his own use. He will have everything he wants that money can buy. He will want little accumulation, since he sees no need of it.

The new leader will put into our economy a new principle. This we shall call, for want of a better name, an economy based on incentive. This is not only paying more for more production; that is merely a start. It is an economy in which man and management work as one.

The fundamental element of efficient manufacturing is this principle. Bad leadership has made labor and management into two warring camps. This is unnatural and contrary to the interests of both and all others. The new leadership will bridge this chasm and bring the two factions into harmony.

The new leader will come up from the bottom. It is only by that route that the understanding so necessary to real leadership can be developed in the leader himself. The qualities of leadership are latent in all people. It is only by crisis and experience here also that those qualities are developed.

The new leader will lead because he deserves to do so. He will not lead merely because he has been given authority by a board of directors. He will lead and all others will follow his lead because he is right in his plans and knows how to accomplish them, not because he has the power of starvation over his subordinates. He would not allow that power to be present in his authority in any case. Progress cannot be properly spurred by fear.

The new leader will be able to bring out of all in the organization the best they have, both in effort and in ideas. All progress is made by the development of ideas from many sources. The thought that a single mind invents is almost completely wrong. No development ever came about except as a product of the ideas of many people. No one doubts that all inventors start from the point where someone else left off. Invention consists in carrying the previous idea a short step forward.

We know that most of our accumulated knowledge, on which progress (which we call invention) depends, comes from the records of the pioneers who have preceded us. Without them to build on, the next step, called "invention," would be impossible.

We know also that the actual invention is generally the outgrowth of ideas and suggestions of others with whom we come in contact. In any case, whether it comes from books, teachers, fellow workers, or all three, as it generally does, we make a relatively minute contribution in comparison with those who have gone before.

The new leadership will direct this development to more usefulness both to the man himself and to society generally. We do not yet recognize the enormous progress that can result from the abilities of mankind. We know that our lives are entirely different from those of our fathers. We see rapid development going on beside us.

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We do not, however, tie this up in our minds with the fact that any such change in our standard of living and our science-given power must result in a revolutionary change in many relationships. The atomic bomb antiquates our whole military concept of society, world domination, and our ideas of freedom from foreign aggression. There is no doubt that for a long time to come we shall still cling to the ideas of a needed army, navy, and air force in spite of their obvious uselessness. New leadership here also is necessary.

The perfectly obvious conclusion on matters military, based on past developments, is revolutionary. It is manifest from what has happened that if we should turn over to the industrialist and scientist, instead of to the military, the job of killing people, which is what war is, they would develop means that would kill all the people in the world in a week or less. The atomic bomb was only a small step forward on a problem that had already been largely answered for another purpose. The future possibilities of many other ideas that are now latent could make changes in the methods and efficiency of mass murder that would make the atomic bomb childish in comparison. The only limit on our future progress will be self-imposed. The possibilities are limitless. We have so far only scratched the surface. That is the new leader's opportunity.

How Should Income Be Divided?

INCENTIVE PROFIT

ANY successful incentive system must be tied in with the profit of the operation. This is not solely because of the money involved, since this is only one of the advantages that those in the activity receive. Profit is the measure of the success of the activity and, as such, is the measure of the ability of those participating. In this regard it is in the same category as the score of a football game as an incentive to the players. There is no attempt here to deprecate the tremendous importance of the distribution of money as an incentive. It is only to show that there is another incentive of great importance, namely, the knowledge by those involved of the result of their skillful operation of the activity itself. Both are of great importance. Both must be used by the leader in his handling of the operation.

There may be difficulty in arriving at the proper distribution of this incentive-increased profit unless management has a sound philosophy and it is properly applied. Here is the place where the plan is often defeated. Some managements may see a chance to overreach. This must not occur. Perhaps the following suggestion can be made.

HOW SHOULD INCOME BE DIVIDED?

Make sure that each party to the activity is rewarded in accordance with his contribution to the success of the activity. This means that, if the profits are doubled because of the system, *most* of the increase should go to the men who doubled the profits. Those people will be the workers, the engineers, the customers, and the management. There is usually no evidence that the stockholder did much to increase the profit. His proper share therefore is small.

PROFIT DISTRIBUTION UNDER INCENTIVE

This distribution will perhaps be questioned by the stockholder when his cut is small. Make sure he knows the facts of life, both then and before the incentive is started. He is not left out entirely, but his contribution to this progress was nothing beyond what he did before, and he should be so treated.

That is hard for an old-line management to do. It is contrary to its thinking. Let us therefore consider to whom any profit should rightfully belong.

PATERNALISM

There are now many cases in which profit is used by management for paternalism. In this method management tries, by tips of various sorts, to make the worker feel that he is under obligation to management which it is hoped he will recognize. To say that paternalism is entirely unsuccessful in producing cooperation is untrue. Friendly workers always are better producers than those who are not. The chief difficulty with paternalism is that it is not given as a result of good work. It is only a tip to all, no matter what their efficiency. In general, few worth-while people respond enthusiastically to a tip. This money to a large extent therefore is not effective in raising efficiency.

As soon as management starts to give large sums of

money for shower baths, sports, trips, free lunches, pictures, etc., the result on the worker's mind is not that he should try harder. Far from it. He wonders why the money is not given to him in wages, if it can be so easily spread about. Perhaps, also, he doesn't like shower baths but would rather bathe in a tub. Probably he does not like the sport the company sponsors, or perhaps he doesn't like the lunches, even if they are free. No man wants someone else to order his life for him, nor should he if he is the kind of man who can make great strides in industry.

Any approach, such as paternalism, makes the worker feel that there is much money which could be spared for the pay roll but which never gets there. He is not satisfied with that. If there is money available for him he wants it in his pay envelope. He does not want it in any other way. Labor has not too much trust in management and, therefore, suspects any unusual act. Paternalism will always be suspect.

Labor thinks that management does not earn what it frequently gets. It has seen too much of the "stuffed shirt," who does little for the success of the company but takes a large share of the profit. The lesser executives have seen directors and stockholders, who work little or not at all on the job, take most of the results of their ingenuity and effort. Neither the worker nor the active management is content with that. It does little good to say that theirs is a legal right. That idea is now brushed aside. It does no good to say that the present division has been usual for generations. That will not change a mind. I am not even urging that the present tendency should be encouraged. However, a new idea regarding profit is here and will stay. In generations hence we shall feel, no matter how it is eventually settled, that the final plan is right, legal, and good. That is history.

† PROFIT THEORIES

Since incentive is founded largely on proper profit distribution, it is well to consider who should rightfully get the dollars of profit that an industry makes, the dollars used for paternalism, as well as those used for dividends, wages, taxes, and seed money. New ideas are in the making on this subject.

First, the worker is told by the socialist that all profit belongs to him and that he should rise in his might and take it. The owner, if he holds a majority of the stock or started the business, especially if it grew from nothing, is sure that all profit belongs to him. Now government steps in and takes a great part in taxes (up to 95 per cent). Renegotiation often takes most of the rest. Government does not argue this matter. It acts on the basis there are no rights that it must respect. Meanwhile, depreciation and obsolescence take their toll whether the other three get anything or not.

The most disturbing aspect in the whole situation is that the customer, who has the greatest stake in the activity, is not considered by any one of these four. Because of his lack of action, he gets little consideration. However, he is by far the most important person involved, and any final decision must eventually be made by him, for he is all of us. He eventually produces all, uses all, and pays for all.

Let us consider these claims in order. The manual worker claims a much larger share because he says he produces all wealth by his labor. His claim does not seem very sound since if he produced all wealth he could go into business on his own and succeed. He does not and in most cases has not the ability to succeed; he thus admits that his claim is not valid. Although all successful businesses start with a worker and an idea, this kind of worker is

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one in a million. Hence, he is not properly called a worker. Genius is more nearly the name.

Ownership and its sometime partner, management, feel that they should have all profit above wages and certain taxes, depreciation, and seed money. Let us seriously question this claim which is common and legal today. It is certainly true that much profit comes from many things over which management and ownership have no control.

As an example, a very poorly managed company, with inefficient workers, still can, and does, make a profit if competition, by agreement, will maintain prices sufficiently high. Many companies poorly managed still make a profit because of a protective tariff. Certainly such profits cannot be properly claimed as the result of the efforts of management or the owners. They are more nearly legal graft taken from the consumer. That point of view is now gaining adherents rapidly.

GOVERNMENT DEMANDS LARGE CUT-IN

Government's claim is the most peculiar of all. In general, government's actions, in relation to industry, are punitive only. This statement is particularly true in regard to incentive management. The present tax laws penalize efficiency. It is not an overstatement to say that with the present renegotiation and tax laws there can be no continuation of what we know as the American industrial system of free enterprise. The present industrial organizations, which have made the United States the greatest industrial nation of the world, could not have become important under the present revenue laws.

The present tax and renegotiation laws are predicated

on the same philosophy as that of the benighted industrialist who cuts piecework prices when the workers make more than he thinks they should. The harder the man works the less he gets for his efforts. Such a penalty will result in industry exactly as it has with the pieceworker. Industry has already slowed up as the pieceworker did before, and for the same reason. We perhaps do not recognize that fact yet, since we are not making civilian products under free competition. When we do, we shall find that the individual who is an industrialist acts just the same as does the individual who is a worker. He will not work his best nor anywhere near it if he is to be penalized for his effort.

It is safe to say that the present tax laws will be changed to encourage efficiency or we shall disappear as a great industrial nation. The present laws are impossible in a country of free enterprisers. This statement applies especially to incentive management, since it would be particularly penalized because of its high efficiency. Government's cut must not only be greatly reduced from its present size, but it must not penalize efficiency.

Management cannot use incentive as a means of progress if a sharply progressive penalty is to be placed on it by an incompetent government, such as we have seen under the present New Deal philosophy. Penalizing efficiency will very rapidly eliminate it, as history records and as our war cost proves.

Obsolescence and depreciation need no discussion. Their allotted share is always too small for the best interests of industry, and probably always will be. American industry is better in this regard than European, but it is still using tools that waste their replacement value many times over before they are discarded.

THE CONSUMER'S SPLIT

Let us now consider the consumer, who does not do much for his own interests but who is, after all, the one of greatest importance in our economic system. His claim to consideration is fundamental, for on him all industry depends. He pays relatively little attention directly to cost. Usually he is thinking only of wages, dividends, and taxes. He is, first of all, in his thinking, a worker or a manager. It is only secondarily that he considers himself a consumer. It is unfortunate that this is so. If the consumer generally were as keen on costs of the things he buys as he is about his wages, he would be a great help in the development of incentive management. The worker would recognize the fact that he buys the products he makes. He would then see that to a great extent he is at all times working for himself. What is even more important at this time, he would see that governmental interference and taxation are paid by him in the higher costs of the things he buys. He would then rebel and this defect in government would be removed.

This consumer must know that doubling his wages is only as effective in providing purchasing power as halving the price of what he buys. He will go through hell to double his wages but he will not turn over his hand to reduce prices. In fact, he will often cooperate in many plans of limiting output, which have for their sole end the increasing of the prices on the things he must buy.

He enthusiastically votes for an administration that makes his cost of living higher while freezing his wages. He will enthusiastically cooperate with a union which limits output so that the thing he wishes to buy will be out of his reach. His only reaction, generally, to this situation, is to gripe at those who are trying to produce

cost reduction. This attitude can wreck our industrial system and has gone far toward doing so already.

As has been shown, the cost of all manufactured products can be reduced increasingly by incentive management. Those savings that could be used for the raising of our standard of living are being dissipated first by output limitation by labor, and also in a rapidly increasing way by governmental taxation. It is easily possible that all the savings coming from better methods of manufacture and more skillful technique will all and more be dissipated in output restriction by unintelligent labor leadership plus taxes. Indeed, this has already occurred. If the worker becomes conscious of the fact that every dollar of increased cost from output restriction is added to every dollar of taxes and that the total is added to the cost of production of the things he must buy, he will have taken the greatest stride toward understanding the way to a higher standard of living and how to get it.

There are some indications that the cost of output limitation is being understood in many quarters and may eventually change the attitude of those who counsel restriction. There is much less understanding of the effect of taxes on our standard of living.

There must be a new approach to this matter of taxation. We must see it in its true relationship. Taxes are the greatest of all reducers of purchasing power. As a matter of fact, at this time taxes are largely the reason for much of the misunderstanding on wages between the industrial worker and his employer. The worker sees his standard of living going down. His only reaction is that his employer is not paying him enough since he cannot live as he did before. He is working as hard but is not enjoying the same kind of living.

The cards are stacked against both labor and manage-

ment. There is nothing either can do with wages to restore the living standard. Increased wages mean more taxes and also a higher cost of production. Still higher wages mean still higher taxes and still higher costs. The cat can chase its tail forever without making any real progress toward catching it.

What is needed for a solution of the problem is either of two things: more efficiency of production, which will offset the effect of taxes in reducing purchasing power; failing that, the acknowledgment that the lower standard of living is what we planned when we agreed to the taxes.

TAXES LARGELY AFFECT ECONOMIC RESULTS

We must learn perhaps the hard way that when we vote to spend we by that action vote taxes on ourselves. No one can escape. Taxes increase the cost of everything we buy. That is the only way that any tax eventually is paid. We could call them all sales taxes, for they are all charged against the cost of production and show up in increased price of everything the ultimate consumer buys. Only the consumer pays taxes in the final analysis. This statement may need clarification.

Let us take a case in point. We go to a gas station to buy a gallon of gas, for which we pay 20 cents. Of that, 6 cents is advertised as sales tax. That leaves 14 cents. The company providing the gas pays taxes of over 100 million dollars. Each gallon produced must pay its share of this tax which is about 2 cents. The railroad transported the gas. It pays another 100 million of taxes. That adds another cent in freight charge. The station that sells it has a tax, which adds another cent. All the people who furnish the oil company any and all supplies, labor, or material must add their taxes in their charges, since they can get their money to pay taxes only from their customers.

HOW SHOULD INCOME BE DIVIDED?

After all the taxes have been taken out, the gas cost is less than 4 cents, the taxes nearly 16 cents. If the 16 cents had been listed as sales tax we should scream our heads off. Or should we?

Perhaps the reader may feel that I am laboring this point of taxes and its relationship to the standard of living. I am not. The whole question of jobs, standard of living, industrial and human development, depends on our handling of this problem of the individual's relationship to his government. The answer that the American people give to this problem will determine not only the fate of incentive management but also their own. Serfdom and slavery we feel cannot happen here. However, taxation will accomplish the result as completely here as it has in countless cases in all history.

THE PROPER DISTRIBUTION OF THE PROFIT DOLLAR

What, then, is the proper distribution of the profit dollar? There is only one answer and that is the distribution given by a freely competitive social system. The answer then is the same for the worker, the preacher, the author, the inventor, the athlete, the doctor, the swain, or the politician. If competition is unrestrained, each will find his own level and, what is far more important, each will have the spur to develop his latent capabilities. That result is of greatest importance since on the development of these capabilities, which no other system than free competition develops successfully, the progress of the human race depends.

Under a completely competitive system, how would taxes for government fare? In a free competitive system, government will have one function and one only, namely, to guarantee the freedom of the individual from foreign and internal aggression. That is the primary reason for the

formation of government. If it were not for this need, governments as we know them would not exist.

The greatest problem that all peoples have had from the beginning of recorded history is to hold government to its primary function. The blood, sweat, toil, and tears of the ages show how indifferently we have accomplished our purpose.

History shows that the greatest threat to mankind's freedom has been government. It has always been man's most dangerous foe. People do not usually lose their freedom to a foreign aggressor but to their own government. Confiscatory taxes are always the tool used.

In a freely competitive system, and only in such an atmosphere, can incentive thrive. Taxation in a true democracy will not be very important. It will take only a very small part of income, so small as to be of no importance. If it ever goes beyond that, a revolution will occur and put government back to its proper place as a helpful servant who keeps the thieves away from the henhouse but who never eats with the family.

Under such a system of free competition, in which government acts only as an umpire to see that the rules are followed, the division of income would change to the following. Government would need a relatively small part of the national income—less than 1 per cent. Labor's part would be increased enormously accordingly. The cut of management never has been a large part of the total income of industry. It would therefore be still of small importance. The absentee stockholder would probably be of progressively less importance, since with incentive management there would be a tendency for him to put his money into the activity for which he worked. This has been shown to be a natural development. The absentee stockholder will want to become a joint owner of his place

of employment. This is part of incentive management's attraction to the worker.

This will leave an enormous share of the total for the consumer. Since the consumer is all of us, we shall all share in this higher standard of living. How much higher this can be is perhaps indicated by the charts in Chap. I. This is not all, obviously, since the ultimate in efficiency is not yet reached; and if history means anything, it never will be. There is enough evidence to show that the progress of the future will be far greater than that of the past, revolutionary as that has been.

This is not a hope, a theory, or a hoax. It has already been done, as Chap. I has shown.

CHAPTER V

Government and Incentive

INCENTIVE management depends on freedom of the individual. It is impossible in a nation in which opportunity of the individual is restricted by the encroachment of any power on his freedom. Only a free man can develop. Only a free man can use his developed abilities in a cooperative enterprise.

We are in the throes now of determining what the individual's degree of freedom is to be in relation to his government. This decision has been made in many nations of the world and freedom has been lost to the individual. Incentive management cannot exist in such an atmosphere. For that reason government's place in our economy is decisive in any discussion bearing on this subject.

The above will no doubt sound overdrawn to anyone who feels that the present loss of freedom to government is only a temporary war measure. Many people are still sure that we shall go back to the freedom of the individual enjoyed by all prior to the New Deal. To such a person the danger of governmental serfdom perhaps seem impossible. I think that it is not overdrawn to anyone who has seen the present domination of government over the individual and has seen the individual adjust himself to this domina-

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tion. For instance, no one can view the present licked attitude of the once proud industrialist, in his groveling reaction toward a dominant government and labor union, without recognizing the ease with which tyranny can be accepted.

We, of course, like to think that Patrick Henry spoke for all Americans for all time when he said "Give me liberty or give me death!" We like to think that any threat to our freedom will result in our springing into the fight to the death for liberty. We like to think that we prefer death to serfdom. However, the fact is, as we have seen, the average American has adjusted himself to lawless domination by bureaucracy with little objection. He has shown not only that he can adjust himself quickly but also that he can be loud in his praise of the system of lawless tyranny. After losing his freedom, he fawns on his conqueror. He thus tries to give the impression that he always wanted to be dominated. By so doing, he tries to excuse to himself his defeat at the hands of bureaucracy.

I shall not cite the many cases in industry illustrative of the above happenings. These are well known to most. I am too proud of the industrialist, generally, to dwell on his amber streak. Almost all persons have an Achilles heel. The industrialist is no exception.

IS GOVERNMENT MADE FOR MAN?

America is not licked yet, however. The domination of government is not as yet completely understood or accepted. The questions that must be answered soon, for on our decision depends the future of America, both as to our economic progress and as to our status as citizens, are: What is to be the eventual position of our government relative to the citizen? Is government made for man or is

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man made for government? Is government man's servant or his feudal lord? Is government to support man as its puppet, or is it the purpose of man under our constitution to support government as his servant?

These questions of freedom in relation to one's own government are not important solely because of the individual's desire not to be restrained by a dominant government from doing something that he wishes to do. The trouble is much deeper than that. It has to do with his responsibility to himself and to America's place in the world scheme of things. The liberty that Patrick Henry spoke of had little to do with the individual's keeping out of jail. It had to do with freedom of choice in our everyday life. It has to do with our development of ourselves. It has to do with whether we can shape our own lives to the great ends that man can reach under freedom, or whether man is to be a ward of a paternalistic government. That means in industry free enterprise or some form of socialism. Loss of freedom under socialism means death to all things that have made industry great. Government can control but it cannot create. It can invade but it cannot invent.

This statement again may sound extreme. It is very difficult to believe that we can be put under the heel of anyone. "It can't happen here" seems obvious. Do I need to cite more than the illegal sit-down strikes, the Supreme Court packing, the invasion of the individual's fundamental rights by edict?

IT CAN HAPPEN HERE

Industrial progress is essential if we are to hold our place in world competition. Industrial progress comes from new ideas, new products, and new methods. New

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ideas do not come from bureaus or groups. They come from the flash of insight that occasionally comes to an individual. It comes only when he has an intense and overpowering interest in a particular problem. It does not come from an effort of will but from the genius of some inquirer. It is contrary to usual thought since it is new. New ideas are usually resisted by all the best minds. The more the idea is ahead of the times, the greater the resistance. The airplane was not believed by many who actually saw it fly. The philosophy of Christ, which is our only hope for the future, is still rejected by many practical minds. RIGHT ON!

GOVERNMENT MUST GUARANTEE FREEDOM

There is but a single, proper function that democratic government may fill. That function is to guarantee the freedom of the individual from aggression by anyone at home or abroad. When government goes beyond that function, it is a tyrant and must be resisted to the death if freedom is to live. Government under this concept must see that no foreign power will invade our rights. It must also see that our rights are equally protected from aggression by anyone in our own country. If we can protect ourselves from our own government, the job of protection from the aggression of any other kind is comparatively easy.

Governmental domination generally comes not primarily because some group or individual wants power; that is always secondary. The reason always is that government tries to produce, by restriction of individual ability, a result that seems good. During the slump it was to give jobs to those out of work. It was to give help to the needy. It was to develop our natural resources. There

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is no doubt as to the rightness of the end desired. The difficulty is that unexpected results to the individual occur from carrying out these innocent and wholly virtuous ideas by democracy.

MONEY MUST COME FROM THE CITIZEN

If government is to give jobs, as is now urged, it can do so only by taking much of the necessary money from industry. That means there will be fewer jobs in private industry. If the citizen is taxed to pay wages to someone else, he will have that much less income for buying his wants from a system of free enterprise. Hence, jobs in industry must disappear. If government is to give social security to some, it can give it only by taking its cost, plus the cost of handling, from all. The gains of social security must be the loss of those who pay for it.

If government is to build dams, other citizens cannot build themselves houses. If government is to give college educations to returned soldiers, others cannot give a college education to their children. If government is to see that all have jobs, those who are already working will have poorer living because of the tax. Government can produce nothing. It can only take from the producer.

This feudalistic government dedicated to security for the "common man" is still attractive to many people. They do not know the cost yet. Giving up their liberty does not seem too serious since it is giving it up to themselves. In the same way, the payment of taxes also seems to them a payment to themselves. In their thinking we owe ourselves all internal debt, hence, taxes are a credit to ourselves. We have even got to the point where, since we owe the debt to ourselves, we use the debt to make things to give away to other nations, and still feel that we are giving ourselves the money.

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WHAT ARE THE COSTS?

It is well at this time to cast up the accounts as to government's promise of security to the individual. This is the reason why we gave up our freedom. Social security for our old age, for sickness, for accident, and for any other contingency that may occur to man, is coverable by insurance in any number of private companies organized for the purpose. When social security was sold to the American public, it was the greatest insurance sales job that ever occurred. We were told that the cost would be little. It would be a fraction of that cost which would be charged by a private company. We took the bait. Many millions were collected from the citizens and from industry to pay for the premiums. All this was in order and all was nominated in the bond. That is the way insurance has always been bought. However, before one cent of insurance was paid to any of the purchasers, the whole amount was taken by government and spent for everything in the world except payment of insurance to the people who paid the premiums. Some of the premiums were given to any country that we wanted to have lend-lease. Some was given to the farmers for not raising food. Some was given to the bureaus for taking our liberties away. It was used for many purposes. None was used for insurance.

However, there is little doubt that the insurance will be eventually paid. We shall be taxed again and again for this. We shall pay the premiums twice at least, for the single promised benefit. The point is that the insurance could have been bought from any private insurance company for a fraction of the cost that we shall pay for it under government's social security plan, as it has already been handled.

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There is a still more serious result of bureaucracy. A genius cannot rise without a proper place to go. A proper atmosphere must be available for him. There were very few jockeys numbered among the Puritans; there was no place for them. Conversely, there are very few Puritans numbered among the present-day jockeys. There are very few inventors among the civil-service workers in government service. They cannot exist there. Conversely, there are very few civil-service workers among the successful inventors in the country. A civil-service worker is a man who follows a routine that is prescribed for him from above. An inventor is a person who does things differently and as no one ever did them before. Hence, the two are diametrically opposed in their thinking. If a civil-service worker should be original in his doing of his job, he would be fired. It is only by being original that invention can be made. If we want one, we by so doing exclude the other.

FREEDOM ESSENTIAL TO PROGRESS

In industry, only by doing things better and hence differently can any concern continue to remain in successful operation. In government, only continuance of prescribed operation is allowed.

Can anyone imagine Henry Ford developing his scheme of conveyer production in a government office? Can anyone imagine Edison developing his moving-picture machine or the incandescent lamp as a government employee? What is more to the point, can anyone imagine Henry Ford or Thomas Edison ever being heard of by anyone anywhere as an inventor if he was under governmental orders? Neither could have developed his latent inventive abilities and both would have gone to their graves as clerks, or unknown workers, on collective farms.

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The people who have developed the thinking of the world are the so-called "nuts." Since progress is change, the people who make progress are different from those who are content with things as they are. Since the usual reaction to people who are sufficiently different to invent is one of resentment, and perhaps fear, such men are always persecuted by those who are in authority. Christ was crucified because he taught the Sermon on the Mount instead of the Mosaic law. Galileo would have been burned at the stake had he not recanted on the idea that the world was round instead of flat, as all the best minds then held. Ford was an object of ridicule when he paid labor \$5 a day, which was twice the usual wage. The Wright brothers were clever enough to escape ridicule only by carrying on their work without anyone's knowing about it. They had been flying for several years before anyone really believed; hence, the usual ridicule was out of date.

OUR EXPERIENCE WITH GOVERNMENT

The result that must come from the operation of industry, with its expert requirements in management, if put under rules passed by bureaucratic tyros, is obvious. We would not expect success from the untrained bureaucrat if he were the operator of any industry. He will be equally unsuccessful if he is to be dominant over the management that is skilled in industry.

The one sure result from the tyro's intervention will be that he will force industry's operation into the only grooves with which he is familiar. The rules therefore will result in stopping not only all progress in industry but also any hope that actual management can go in any direction that will promote progress.

Perhaps the following experiences of the company of

which the author is the executive head may be enlightening as a demonstration of these facts.

We have always believed that incentive management is fundamental to efficient production. Chapter I gives our reason. In carrying out this theory we have paid for production by the worker an amount that is proper. This has resulted in large earnings for large production, small pay for small production. Bureaucracy, however, cannot understand this. Bureaucrats cannot divorce their minds from wages per hour. They have always heard of them as being paid that way and no upstart in Cleveland is going to make them think otherwise! Besides, the law says "wages per hour" and, anyway, they cannot regulate on any other basis.

Because of this attitude of mind of incompetent (insofar as industry is concerned) bureaucrats, we have been subjected to a program of torture that would have shamed the Inquisition. This was not because government wanted to crucify us. They just could not understand; hence, we must be in the wrong.

During the year 1941, under our incentive system, our labor cost of production was less than half that of our competitors. This was still true when we paid our men for this production an average of over \$5,000 per year. At that compensation, the labor cost per piece was actually less than half that paid by our competitors for doing the same work. The selling price also was reduced proportionately for the same reason. This would seem to a mere manufacturer as being a result, during a war especially, devoutly to be wished for by labor, by the consumer, and by government. The worker got more for his work, the customer got more for his dollar, and government got more taxes and paid less for the products it bought from us. All gained; no one lost. However, this is what happened.

HOW GOVERNMENT FUNCTIONS ON NEW VENTURES

First, because of our outstanding record, the Vinson Naval Affairs Investigating Committee sent a cloud of investigators to our plant who for weeks got in our way and our hair because they wanted to prove that we were paying these high wages to escape taxes. After they had interfered as successfully as they would, they haled our top management to a hearing in Washington without any charges being brought against us until we arrived at the hearing. The whole attempt made by them then was to get us to admit that we were crooks. They already had made up their minds to the fact themselves. Their only effort was to get us to admit it.

Obviously, they could make no progress, since the facts were as stated in Chap. I. They could not even twist the facts to their desires. The hearing ended in congratulations to the members of our company by members of the Vinson Committee.

That made no difference to those bureaucratic minds. They still, in the record which they wrote without our knowledge, made the same accusation that they had failed to prove. They still claimed that we were paying these wages to escape taxes and so falsified the record. However, no bureaucrat has yet explained to anyone how taxes can be escaped by raising wages.

This experience was only a start. No sooner had we returned to our jobs of making a product that was needed for the war, as we were told, than another cloud of investigators descended on us from the Treasury Department who said we owed them nearly \$2,000,000 extra in taxes because we paid our men too much in wages, in annuity, and in wage-separation plans, which items we had been paying, without protest from them, for years. At that time the

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famous statement was made that "no man who works with his hands is worth \$5,000 per year." That case is still in the courts. Meanwhile, we are liable to the same penalty for the following years to date which, if collected, will wreck the company and also the incentive system as we have developed it.

That, however, is not the end. Bureaucracy is all-embracing in this government. Shortly after these investigations, more investigators descended on us from the FBI. They pawed over the same records that had been recorded, photostated, and torn by previous sleuths. After due course, we were haled before the Price Adjustment Board and assessed \$3,250,000 for the year 1942 because, we were told, our prices were too high by approximately 15 per cent. These prices were under an OPA ceiling. No other manufacturer was renegotiated on a product such as we make, since no other made a profit on it.

While still groggy from this claim, we were being investigated by the Federal Trade Commission on the charge that we were, at those same prices, selling below cost, our purpose being, they claimed, to drive our competitors out of business. Hence, they said, we must raise our prices.

In order to clarify the record, the following facts are pertinent. Our profit was less in all years since the beginning of the war than it was before. We were, however, making more than four times as much product. This meant that our dollar profit was much less than one-fourth that on the same product prewar. Our product was under an OPA ceiling price which was the same as that which existed prewar. Our prices were below that ceiling. They were the lowest in our history.

The claim of the Treasury Department regarding our high wages is made still funnier in the light of the fact that the Department of Labor tells us that if we do not

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increase our wages by raising our bonus payments by a percentage equal to our overtime, we shall be liable to court action by all our employees. Their point is that we must pay our men more than we have by the percentage of our overtime hours, which would raise our total payments by about 10 per cent.

However, the War Labor Board, which is one of a score of new government bureaus having to do with labor in some unknown way, has the following to say: "If you pay the amount that the Department of Labor demands you pay, we will put you in jail as president of the company and we won't allow the wages as expense." There are other bureaus to be heard from, I suppose, with other ideas. However, we are in this very interesting position so far: If we pay the increase, I go to jail according to the War Labor Board's statement to me. If we do not pay the increase, we are liable to ruin from court action by our workers, according to the ruling of the Department of Labor.

Each claims authority in the case. I am letting them settle the matter between themselves since I am preparing for the next set of investigators. Traffic of investigators about the factory is getting very difficult to control.

BUREAUCRATS DO NOT COORDINATE

The foregoing is cited not to criticize the investigators who have been involved. They were merely doing what they were told to do. It is not cited to produce enmity toward our government. It is cited for one reason and only one: to show how impossible it is satisfactorily to control industry by bureaucracy.

As a matter of fact, it is doubtful if any one person in government even knows all the foregoing facts. This was not an attempt by government to take a grudge out on our

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company. It was the honest attempt by bureaucrats to do the job of governing. As a matter of fact, they did it well within their lights.

These experiences could be duplicated in thousands of cases even more asinine than ours. The only reason for telling our story is to show how inevitable is the conclusion that dominant government and free man are impossible at the same time. If we are to have, as the reason for government's existence, the job of giving freedom to the individual, then obviously such bureaucracy must go. If we are, however, to have government the dominant factor in the citizen's life, if government must be the giver of security as was the feudal lord of the Dark Ages, we must expect not only such experiences, but their multiplication.

WHAT IS GOVERNMENT'S FUNCTION REGARDING SECURITY?

There are many people who feel that government can be responsible for social security and unemployment insurance and still leave the citizen free to pursue his self-appointed course. The politician preaches that. At this time there is little doubt that any politician who proclaimed any other policy for government would not long remain a politician. He would be returned to private life.

To feel that the responsibility for our living can be shifted to someone else is comforting. Particularly is that true when government seems so anxious to do it. The difficulty is rather evident when analyzed. In the first place, the average person objects to being taxed to support someone else in idleness. Long experience has shown that in that idea there is great unanimity. It has been tried by many people, many times, in many ways. None of the schemes have been successful for long. No one yet has found enough people who love work for work's sake to

shoulder the burden of supplying the cost. Every government that has tried it always has run out of money before it ran out of clients wanting benefits. Inflation will carry the load for a few years. However, someone gets restless before long and asks about the government's debt. He never seems to be continually satisfied to think that it is of no consequence since we owe it to ourselves. Then the fat is in the fire.

The taxpayer sees that he is being exploited for those who will not or cannot work. He, being human, quits. That leaves it up to the politician to provide the funds. The only way he knows is by government debt, and eventually government credit becomes exhausted.

Although that is a difficult situation and calls for drastic action, which is usually war, the most damaging result is not yet stated. If the worker is to be exploited by paying all income above a bare living for someone else to spend, he will have no reason to be ambitious. Under such circumstances he will remain an unwilling serf with government as his feudal lord. No such serf ever rose to the heights that have made Americans great. Stagnation is the normal result of serfdom. That is the most serious consequence of domination by government.

OPPORTUNITY OR SECURITY?

Opportunity disappears when security comes. The two are not possible together.

We have some people who feel that a little security is all right and cannot lead to serfdom. Up to the present time, I have yet to see anyone who is content to furnish the good things of life for others if he cannot have them himself. Social security will be for all, or not at all.

This brings us to the conclusion: What are we going to do about it? If we are going to be a nation of men, rather

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than serfs, we must get that power already given to government back into the hands of the citizen.

It is hard to eradicate any government activity, once it is started. The mere fact that there was a seeming need at the time it was started demonstrates the fact that it had some virtue. Hence, its eradication will leave a void in its connection with other bureaus. A much more potent reason is that the workers in the bureaus have their jobs to protect. A bureaucrat is the same in his need for job security as a factory worker. His main worry normally is to have his job continue. He must eat regularly the same as any other citizen. When we see the lengths to which the industrial worker goes to get continuity of employment, certainly we cannot expect less of the bureaucrat. As a matter of fact, he has more time to plan for such continuity, and does.

HOW ABOUT THE TAXPAYER?

We are going into the time when the shoe is pinching the taxpayer. We are in a period of inflation, and governmental bureaus will increase in cost just as rapidly as any other items of our living. The taxpayer always gripes, but never gripes at the proper time nor at the right things. He will willingly go along with any program of starting a new bureau, no matter how cockeyed its reason. After it is started, however, he will yell his head off because of the expense, if he feels that he is paying for it. It is then usually too late.

Government dominance over man will disappear only when man wants it to disappear sufficiently. Up to this date many people think exchange of liberty for security is a good one.

We are not more disturbed because we have not yet seen what the loss of freedom really means. We have seen

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only a faint indication of the pushing around we shall all get with a dominant and a fully entrenched bureaucracy. Authority to the present bureaucrats is still new. They have not yet tried their wings. When we have the same treatment in all our contacts with our masters that we have in trying to get a pound of butter before it goes rancid in government storage, we shall begin to know the facts of life.

We shall then know why the Pilgrim Fathers were willing to die in the New World, as half of them did the first winter, rather than to return to security, but with loss of their freedom, in the Old World. They knew what a dominant government meant in their lives. They knew the result of trading freedom for security. They had had the experience of serfdom under a feudalistic government. They would have none of it.

If we now eliminate the freedom of the individual, we eliminate with it his chance to rise. If we prevent the development of the individual, by taking away opportunity, we eliminate the one thing that has made America what it is. Genius is the result of opportunity. When opportunity disappears, genius goes with it.

HISTORY OF OUR FIGHT FOR FREEDOM

History shows that threats to our freedom have come several times before. It is instructive to note what our forefathers did when such threats came. The reasons given for loss of freedom, in all cases, were similar to what we are promised now. As usual, all promised great reward for freedom's loss.

I have already cited the reaction of the Pilgrim Fathers to security at the price of freedom. They were so close to governmental domination that their reaction was automatic. Death was preferable to the security given them

by a feudalistic government. They left security and came here to escape. Obviously, they would not return.

However, a hundred and fifty years later the same problem was presented in a new and more enticing way. There was no pressure to go back to Europe. The question was: What was to be done about a tax that would eventually again make them serfs? The matter was approached by the mother country in a diplomatic way. The pill was, as usual, sugar-coated. Taxation has always been approached in that way by every government that wishes to fasten serfdom on the citizen. How well we Americans now know the pattern! First, pass the law. Explain that it is for the good of all and the result will be painless. In any case, the government only wants to help the citizen. There is no such thing as danger. Look, the tax is infinitesimal! It is nothing. In 1776 the country was not fooled. The scheme of governmental feudalism was spurned. Some wanted to knuckle under. "Why kick? We can't help it anyway." They were called Tories. Freedom triumphed, however. With Patrick Henry, the colonists took liberty. It is enlightening to remember that liberty at that time was purchased, as always in all history, at the price of death. We now, however, think the bargain was a good one.

Less than a century later the same threat to our liberty came again. This time it was in the form of human slavery to drive the free worker to serfdom. For more than a generation the plan had succeeded. Again, we rose to the occasion and kept our country one of opportunity for all individuals. We may well now remember those words of Abraham Lincoln at Gettysburg: "Let us here highly resolve that these dead shall not have died in vain—that this nation, under God, shall have a new birth of freedom and that government of the people, by the people, for the people, shall not perish from the earth."

It is well to remember that in all cases the program for the loss of the individual's freedom was the same. Government promised security to him for the loss of his liberty. In all cases the seeming gain was great and the seeming loss was small. The slavery of the black man was cited as of no importance to the white man, since the slave was a thing apart and in no way connected with the white worker. We see now, however, that slave labor would have set the price for all labor.

The fourth attempt to replace liberty with so-called security by government is now upon us. It is the most vicious of all. It seems so sensible to have government support the unfortunate. The solution is so easy. Again, we have the Tories, who are now the incompetent and lazy, who want to pass their responsibility on to someone else.

Of course, the penalty is not mentioned: Stagnation for the producer, since he will be the exploited serf. Stagnation for the rising generation, since there will be no more opportunity. Man a clod, not the master of creation.

The outstanding fact about freedom is that no nation that has paid the price and regained liberty ever considered the bargain a bad one, no matter how much blood it took to get freedom. We can be sure that we shall feel the same way now if we have the love of liberty necessary to pay the price.

As is always true, there will be many who will feel that security is preferable to freedom. Serfdom was the accepted way of life for a thousand years, and the serf and his master accepted it as proper. It surely gave the serf security. He never lacked a job or a living under feudalism. Do we want freedom so that the individual will have opportunity to rise and develop to the person whom God made? Shall we instead of this take security given by a feudal government? On our answer to that question the future of America and of the world depends.

CHAPTER VI

Collective Bargaining Is Civil War

THERE is little doubt that the greatest threat to cooperation between management and men in industry is so-called "collective bargaining." Since incentive management is based on cooperation, a discussion of the peculiar law known as the Wagner Act, that "Magna Charta" of labor, is necessary here.

I am not attacking the many unfair and unequal rules it sets up. That is far outside of this text. The only interest germane to the subject of this book has to do with the threat to any cooperative action that such a law and its necessary concomitant rulings and regulations must have. Suggestions about removing the deleterious effects of the statute will be made since such changes are necessary if free enterprise is to remain in American industry.

COLLECTIVE BARGAINING POLICIES

We are seeing just now a practical demonstration of the theory sponsored by the present labor government that all the difficulties between management and workers can be solved by collective bargaining. This is a novel conclusion in the light of current happenings. We see John Lewis demand and receive, because of his power, increases for his

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unions that are contrary to the announced policy of government. Unions of less power are denied increases that are entirely proper by comparison. In fact, we see the armed might of the nation called in to force an increase on unwilling owners and the public in one case and to deny it in another. Thus is "collective bargaining" translated.

However, in most cases under the Wagner Act, as now interpreted, government sets up on one side of a table a group of people called "management," on the other side a group of people called "labor," orders them to fight until one or the other gives in and signs a contract dictated by the winner. Since the strike is the weapon that the government plan gives labor, it will be used. Under such philosophy labor would be foolish not to strike.

LABOR AND MANAGEMENT A TEAM

The idea that industry consists of two warring factions—labor and management—is obviously wrong. In any industrial establishment all people must be both managers and labor. All are managers when they operate a machine, an assembly line, a broom, or a punch press, or when they manage the financial, economic, and social activities of the company. All also are labor. Some operate machines, some operate assembly lines, some operate brooms, and some operate the activities with government, with sellers, with buyers, and with the public. There can be no dividing line drawn between them. All are essential to the business and are complementary in their work. To introduce a civil war between management and men, under such conditions, is as senseless and as unreal as to introduce a civil war between man and wife because of their different responsibilities in bringing up a family.

The fact that a conflict is forced by the philosophy of collective bargaining dooms the result to failure. The loser

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is bound to scream "we wuz robbed," and immediately prepare to fight again.

Setting up new war rules or changing the existing ones in an attempt to eliminate the continual battling, as government is always doing, will only cloud the issue further or make impossible the announced purpose. The present labor-management name calling, with its charges and countercharges of dishonesty, is the obvious outcome of such legislative nonsense.

Labor peace cannot be obtained by more governmental rule changes as now planned. Eliminating by rule the use of poisoned gas did not prevent the recent war nor its greater casualties. Cauliflower ears were not stopped when boxing gloves, instead of bare fists, were used in the prize ring. The slap-happy boxer was still the result of head pounding when the Marquis of Queensbury rules were announced for the regulation of prize fights. The fight still remains.

FUNDAMENTAL ERROR IN COLLECTIVE BARGAINING

The inherent and fundamental fallacy in government's thinking regarding labor relations is shown further by the fact that a complete and well-directed routine for labor-management strife is written into the Federal labor laws. Manifestly, strikes are part of the government's labor plan. Struck plants also are forced to defeat by the armed forces if the union is unsuccessful alone. Yet government mumbled in its beard about "no strikes in wartime."

In order to follow this government-sponsored plan, both sides pick the best fighters obtainable. These outside gladiators, at so much per day, usually have no direct interest in the outcome. Their only interest is in their fees. The person most interested and the one who pays the entire bill is the consumer. He is never represented in

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the battle at all and he always loses. As a matter of fact, the workers and the managers in the plant involved—the ones directly interested—seldom ever get into the fight. They sit on the side lines with the consumer and pay in increased cost of living the inevitable losses which this civil-war policy must produce. This is the way in which labor's "Magna Charta" functions.

It is obvious what the outcome of such a policy must be. The side that feels that it lost in the battle—of course, both sides must feel that way—is immediately preparing for the next battle of this continuous war. That takes place when the existing contract runs out, or as much sooner as a strike or lockout can be arranged if either side feels that such action will be advantageous.

CUSTOMER ALWAYS LOSES

As would be expected in such a war, the argument has to do not with the meeting of minds, but rather with technical advantages which can be capitalized in later struggles. However, cooperation is killed in the struggle and progress of the company is stopped. There has never been any collective-bargaining fight that did not end with higher cost of production. There has never been a collective-bargaining fight that did not result in a loss to the consumer. This is the assured outcome of industrial civil war.

Such battling would be serious if carried on between a union and management in one plant only, as occasionally happened before the advent of government dictation in labor relations. However, since the passage of the Wagner Act, this "Magna Charta" of labor has made civil war practically compulsory for all plants. This may be an open battle or a spineless surrender by management. The result on costs is about the same, however.

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PURCHASING POWER HURT

The economic result of this civil-war philosophy is disastrous. Reduced efficiency obviously reduces the purchasing power of all people, in exact proportion to the increasing cost. Perhaps the worker belonging to a dominant union can compensate for this reduction in purchasing power temporarily by forcing higher wages for himself. This only increases costs for all still further. For those on fixed incomes, such as salaried people and that enormous and growing group depending on social security, insurance, or fixed salary, the results are tragic. Here, as is always true in war, the civilian population is overrun and suffers more than the armed forces involved in actual combat. There is no protection for the innocent bystander in war or in the Wagner Act.

HIGHER PRICES—FEWER JOBS MUST BE THE RESULT

We have not as yet seen the eventual result that is in store for the country because of this policy. We have not, because we are not making civilian goods in a competitive market as yet. What are being made are under an OPA price ceiling. No other civilian production is allowed. The products under OPA price ceiling are made of shoddy. Only so can they be made to meet the OPA ceiling price, and the others are not made at all. When civilian production begins, we shall see an increase of price of at least 25 per cent or even an average of 40 per cent. This will, of course, mean eventually a smaller market, fewer jobs, and a lower standard of living. However, that is the only way we learn economics. There is this to be said for such a schooling. Eventually we do learn and, when we do, we do not easily forget the lesson.

The difficulty in governmental thinking in regard to

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collective bargaining is that by setting up two sides, labor and management, we automatically produce a war. There are no two sides in a proper worker-management relationship. If at any time either believes that there are two sides, any efficient functioning of the two must disappear.

WHAT IS THE PROPER RELATIONSHIP?

The proper relationship between management and men is almost as close as the proper relationships in a happy family. If at any time the members of a family go beyond cooperation and attempt to settle their problems by rule or compulsion, the family, because of this reliance on something else than cooperation, must fail. Collective bargaining fails when applied to a family, as the divorce courts show. It fails in industry, as our advancing costs and continual warfare under the Wagner Act show.

These increases in costs, because of this civil war, are serious in themselves, but that is only part of the story. As the costs of the standard of living go up and jobs decrease, as they must, unrest is sure to develop. Those at the bottom of the economic ladder suffer first. Shortly thereafter, all are involved. Government then steps in, as it must under the present philosophy of government as a provider of a standard of living for the unfortunate. This still further upsets the economic machine, and we have still higher costs because of the increased taxes and governmental interference. There are hence still fewer jobs, more government help to the needy, and hence still more need.

EVENTUAL OUTCOME OF COLLECTIVE BARGAINING

We do not have to look far to see what the outcome of such a program is. History is full of it. Russia went communistic; Germany, Italy, Spain, and England went socialistic.

It is interesting to see that Russia, after messing about

with communism in which all were equal, kicked the communistic philosophy out of the window and went to a cock-eyed form of incentive management. Under this rather peculiar setup, there is more difference in income between the top and bottom layers of workers than ever existed in such capitalistic countries as the United States. Russia has all of the so-called "abuses" of capitalism, such as widely unequal income, and all the abuses of the totalitarian state, such as bureaucratic bungling. The essentials to success have been grafted on to the reasons for failure. Thus are both the right and the left adopted. The starvation of 5 million Russians by governmental edict in 1934-1935, to bring all into line with this insanity, was seemingly necessary under this strange concept of communism.

This totalitarian answer is not attractive to most people in the United States. No one looks forward to government control such as we saw in Russia's starvation of 5,000,000 people in the years 1934-1935. This method of eliminating the opposition was effective, but messy. It has little support outside of the wild-eyed theorists in our government; at least up to this time. Other forms of totalitarianism, however, still have much attraction to many strange people.

TOTALITARIANISM HAS ITS ADHERENTS

There is no theory that appeals more to some people than the idea that government can operate industry economically. These people, none of whom ever had any experience with industry, always feel that governmental operation will eliminate profits, increase wages, and raise the standard of living; therefore the happiness of all will be increased. If that were true, no one would oppose government ownership or operation of all industry. However, all experience goes to show that none of the advantages claimed for such control ever results. Since the failure of governmental reg-

ulation of labor-management relationships under the Wagner Act is of a piece with the problem of governmental operation of industry, a discussion of the matter, from the point of view of an industrialist, may be of benefit.

The failure of totalitarian control of industry stems from one fact, namely, that industry then must be operated by bureaucratic rules. Industry is a very complicated activity and no rules can be comprehensive enough to apply properly. The tyro in the matter may feel that manufacturing consists of building a plant, hiring men, selling a product, and paying dividends. All these activities are of little consequence in making a successful enterprise. Again, the family may be used as a comparison. Feeding, clothing, and housing children are essential but do not make a successful family of children. The orphan asylum can do those things better than many parents. An orphan asylum, however, seldom succeeds in rearing children as well as the home does.

The reason the orphan asylum fails in competition with the home is its dependence on rule and law as a guide to success in its operation. The essential that is left out is the friendly cooperation that is obtained in the successful family. This cooperation cannot be commanded, it must be spontaneous. It cannot be a matter of law, it must be a matter of desire. Here is the foundation on which the success of any human activity must rest, be it manufacturing and selling a product, raising a family, or playing a football game.

HOW GOVERNMENT OPERATES

Perhaps present experience of governmental operation of many functions normally left to competition will illustrate the point. The distributing of food through previously established means should be relatively simple

compared to the job of producing it. To put the matter another way, it should be far easier to distribute products of farmers and manufacturers after they are successfully operating than to organize and direct them in their production. Government should have no difficulty now in directing distribution if it is successfully to undertake, as it must under totalitarianism, the establishment and direction of all farming, plus all industry, and all necessary supplementary functions.

However, the failure of such agencies of government as AAA all the way to ZZZ has been a sorry spectacle. As of today, millions of pounds of food have been allowed to spoil because rules do not properly distribute them. The citizens have little meat, butter, gas, or patience because of bureaucratic bungling. If such a simple problem as the distribution of established production cannot be successfully handled, what chance have government bureaus to think of other rules and edicts that will do the job of organizing and directing all functions of our economy? What chance have bureaucrats of thinking of the proper regulations so that new inventions and products fundamental to progress will be the result of these edicts?

Many nations have gone through the experience of seeing selfish or ignorant people trying, and often succeeding, in overturning the established economy. The reason given and made the basis of the revolution is never the self-seeking minority. That, of course, would fail. The plan always is to promise Utopia if only the freedom of the individual is given up to the promiser. None of these plans ever succeeded for anyone else than the promiser. They are all based on the fundamental theory that the tyro, who does not know the difficulties, can pass regulations, which, if he did know the difficulties, he would never pass because he then would be certain of their failure.

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The complication of the operation of industry becomes greater as it becomes more and more a machine rather than a hand activity. In our present methods of industry, efficiency is more and more dependent upon a machine properly operated and controlled by a man, rather than on man doing the work himself. Under these modern industrial conditions cooperation, rather than battle, obviously becomes completely essential for any program of manufacturing efficiency.

Any attempt to regulate industrial relationships by law as is attempted in the Wagner Act must fail of accomplishing any proper purpose. The essential for success is again cooperation. This cannot be obtained by law or by bureaucratic edict, as we have seen over the past decade.

Another outcome of this civil-war philosophy is the attitude of the worker toward his job as seen in this country compared to that in Canada. Here the worker is often lazy since he cannot be disciplined. He is uncooperative and impertinent toward those he should assist. His developed incompetence, the result of lack of discipline, breeds an inferiority complex. He often feels that this attitude can be helped by showing that he can tell all to go to hell and still have the people he insults forced to support him. The worker in Canada is controlled by competition. These shortcomings do not exist there.

NEW APPROACH NEEDED

It is obvious that we must have a new approach to labor-management relations, if we are to have a successful economy. No one contemplates, without fear of chaos, the continuation of the present strife. Obviously, the only answer is to stop this civil war and promote cooperation. *Incentive management does just that.*

When a proper incentive-management plan is introduced,

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management and men are both working for the same end: the making of a better and better product to be sold at a lower and lower price. Hence, there is no strife. There is no cause for strife. All are on the same side of the table.

Furthermore, in the past 10 years incentive has *reduced* costs of the goods it produced at The Lincoln Electric Company by more than 50 per cent. During the same period, costs in industry generally *increased* by more than 25 per cent. Incentive has *increased* wages by more than four times. Wages, outside of incentive-managed concerns, have not doubled. Incentive management has also paid, without interruption, ever-increasing dividends to the stockholders—a dividend record that is almost unique. What is most important to the future of America and to labor generally, however, is the following. Incentive management has more than quadrupled the number of men employed in its industries because of the increase of the market, the direct result of the lowered cost. The answer to all problems involved in industry and its relation to the public is complete.

There is no strife where incentive management prevails. There is instead greater reward for all concerned—workers, consumers, and stockholders. Here is a long-tried and universally successful answer to all problems in labor relations. It is well to note also that incentive puts in our grasp, by its economies, new and enormous world markets heretofore untouched by us. These world markets can assure full employment for all workers with a constantly increasing standard of living.

NEED FOR LABOR ORGANIZATION

This condemnation of government-controlled collective bargaining does not mean there is no place for a labor

organization. 'Proper labor organizations, however, must deal with reality. It is obvious that they should not be organized for war but for peaceful and helpful cooperation of management and men. Such organizations can promote group action for accomplishing the result of universal benefits that all want. There is no doubt that great assistance could be given to management by the people who operate the machines. Here is the proper function of the labor union. Their point of view is different; their insight into mutual problems can be very helpful. They have the knowledge and experience to make suggestions that would be of great help in the promotion of the essential progress in industry.

As has been said before, management, if it is to be the best obtainable, must be the collective intelligence of the whole organization. No one man, or even a small group of men, can have sufficient knowledge, experience, and wisdom to make decisions that can be as sound as they would be if these decisions represented the collective intelligence and experience of the group. The problem is to get this collective intelligence and experience to bear on decisions as they are made. A labor union can be of decisive help here.

There have been many attempts over the years to organize the collective wisdom of the group so that it bears on the questions that management must answer. This has been called in some cases "multiple management." Call it what you will, it is actually reaching for this desirable end. That is to get the group intelligence to act on the problems rather than the intelligence of one or a few top executives. It is plain that the group know more about any problem than any top executive can possibly know. If he is able to get this collective wisdom to bear on his decisions, he will have done a job that is now very seldom

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accomplished. That is his hope and inspiration. The manager who can do this is a genius.

Finally, we should bear in mind that if the attention of the organization is on labor trouble, it is not on lowering cost. If the attention is on the filling out of government forms, it is not on better design. If it is on seniority, it is not on a permanent job for all. If it is on union maintenance, it is not on the interests of the consumer. If it is on being forced to follow distasteful regulations, it is not on cooperative action.

RELATION OF COST AND EFFICIENCY

Why cannot we look at the problem of production as human beings who crave a higher standard of living instead of union men, or New Dealers, or "common men," or capitalists, or labor baiters? If someone selfishly increases the price of a commodity that we must buy, we resent it. If we, by inefficiency, run the price up on a product we make for others, they also resent it and rightly. However, when it is union restriction that runs the price up on all buyers, we get confused in our thinking, especially if we are in the union.

If restrictions were taken off in the building trades, 50 per cent more people would own homes. If restrictions, both governmental and labor, were taken off all things that make up our standard of living, we all should have enormously more of everything we wish to possess.

NEW THINKING ON WAGNER ACT

We must think straight on labor-management relationships if we are ever to get a proper solution. Setting workers against each other because they are called "supervisors" or "operators" does not lead to peace or understanding. Making a foreman management this week and

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labor next, to be again changed by government ruling next month, will not promote peace even if it is done by the War Labor Board, by the National Labor Relations Board, or by any of the other numerous conflicting bureaus set up by a confused government to solve a perfectly obvious problem. There is no trouble in getting to a solution if reason is made dominant rather than the feeling of the people involved.

In the fundamental philosophy of the Wagner Act and in union thinking, there is always the idea in the background that labor must be dominant so that it can not only raise wages and better working conditions but also control the number of jobs by limiting output. There is always the bugaboo of no jobs. There is no doubt that unemployment is a real threat, but it cannot be solved by output limitation. That eliminates jobs by making them uneconomic. There is no job in the world that would not disappear if the cost of doing it were high enough. By the same token, there is no possible limit on jobs if the product made can be made cheap enough.

Contrary to much government and union thinking, the task of industry is not to create jobs but to eliminate them. Industry's value is in direct proportion to the number of jobs it eliminates. If it ever stops eliminating jobs, it will disappear, since its reason for existence will have disappeared. This fact is fundamental, but perhaps needs illustration since it goes contrary to the thinking of union leadership, the Wagner Act, and the opinions of even some citizens who are reasonably intelligent.

INDUSTRY'S PURPOSE IS TO ELIMINATE JOBS

As a matter of fact, the only reason that industry ever existed was for the sole purpose of eliminating jobs that had been necessary previously. That is the only job indus-

try has and the only justification for its existence. For example, industry produced the tractor so that it took one man-day to plow 20 acres instead of 15 man-days. Had it not eliminated the 14 man-days, industry would never have had a chance to make the tractor. The grain raised on this 20-acre field was taken by truck to market in 30 minutes instead of 4 hours, thus cutting out 7 man-hours on a round trip, because industry eliminated the horse as a means of transportation and replaced it with a truck. If these 7 man-hours of work had not been eliminated, the truck would never have been made. The grain was changed into flour in 1 man-hour instead of 100. Industry could not have made the flour mills, the electricity, and its transmission system if those jobs had not been eliminated. The conclusion is obvious.

The point usually overlooked is that everyone wanted to have these jobs eliminated. The farmer wanted to raise more grain with less work. The buyer wanted to make more flour with less work, and so forth.

If we can increase efficiency of production sufficiently by eliminating jobs in the making of anything useful, we thereby actually raise the number of jobs by increasing the use of the product. That is the fundamental fact that the Wagner Act and much union leadership overlook. We all have seen our standard of living and the number of jobs rise as jobs are eliminated by modern industrial methods, yet many in the ranks of labor and government do not see the connection. This lack of understanding is most serious in our present approach to the labor-management job problem. Let us examine this seeming contradiction.

Jobs are given to industry by customers who want to buy the product. The feature that makes the product attractive is price. That is the decisive factor in most sales. If we can reduce the price far enough, there is no useful product that does not have an almost unlimited mar-

ket. The converse of that is equally true: if the price is raised sufficiently there is no market for any product no matter how useful. Cost is determined by time of production. Time of production is determined by efficiency of production. Efficiency of production is determined by the number of jobs that can be eliminated. This is the justification of the American free-enterprise system with its job-eliminating ability.

As an illustration of size of the market and the price relationship, let us consider the automobile. In any normal year there are about 15 million automobiles sold; 11 million of them are secondhand cars, 4 million of them are new.

Why do nearly three quarters of all the people who buy automobiles select secondhand cars? Is it because they would rather have old cars than new ones? Certainly not. They buy secondhand cars for one reason and one reason only: because they are cheap.

Manifestly, if new cars sold for the price of secondhand ones, there would be 15 million new cars made and sold each year. The only reason that the jobs, comfort, and standard of living that 15 million new cars represent are not made available is because we do not know yet how to eliminate enough jobs in the manufacture of automobiles to bring the cost down sufficiently to make them available. When we do this, as we no doubt eventually shall, we shall make 15 million and more new cars every year. That is how jobs are made in America's free-enterprise system.

We cannot drop this matter without citing certain other results that would flow from such a program. Cost reduction would make other markets outside of the United States available to manufacturers here. That would increase still further the number of automobiles made. The same efficient methods developed in making these automobiles at lower cost would also be usable in other

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fields. Not only would more automobiles be sold but also more radios, washing machines, clothes, and steaks for the same reason and to the same people. Eliminating jobs as industry has been doing will actually produce more jobs in much greater proportion, as the industrial system has proved from the beginning of the industrial revolution.

Incentive management, as has been shown in Chap. I, is the direction in which industry must go to reduce jobs and decrease costs. The way costs are reduced is by eliminating jobs and by increasing efficiency. That is the way in which the worker is given the money to buy this higher standard of living represented by these cheaper products. That is the way that more men are employed in industry. That is the way that profit is more nearly guaranteed to the stockholder. That is the way that a satisfactory labor-management relationship can be developed.

War between labor and management, as introduced by Wagner Act's collective bargaining, will not only stop progress under incentive management, it will do more. It will eliminate much of the progress already made by industry.

The Wagner Act as now interpreted by government is not labor's "Magna Charta." Instead, it is the doom of labor's proper aspiration to a progressively higher and higher standard of living. It is the defeat of labor's proper aspiration to a more and more important place in the industrial progress of mankind.

Civil war nearly wrecked our country once. Industrial civil war as organized under the Wagner Act could very easily wreck America now.

A WORLD MARKET

There are approximately twenty times as many people outside of the United States as there are in it. If we edu-

cate those people to our standard of living, there is a market twenty times as great as we have here. Yet even the home market is only partially supplied by industry, as our automobile illustration shows. Of course, the standpat foot-draggers will at once say that the foreigners do not understand America's standard of living, hence why talk about their having it?

Let us consider this point. During the time prior to immigration restrictions there were many people with poor living standards who came to our shores because of their ambition. The question is: Did they and their children rise to our standard of living or not? They did. There was never any doubt about that. There was some complaint from the 100 per cent Americans that those damned "wops," "Chinks," "kikes," or "bohunks" acted as if they owned the country and were therefore objectionable. The actual objection of the 100 per cent Americans was that they outdid the native American in adopting his standard of living.

Are the foot-draggers going to convince us now that we cannot do the same thing to these same "wops," "Chinks," "kikes," and "bohunks," etc., if they stay in their own homeland? That is not even convincing to themselves. But before we can bring them up to our standard of living, industry must be able to produce many times what it can make now. Our own country can absorb enormously more than it does now, as the automobile situation shows. What would happen to jobs if we reduced the cost of all products by eliminating jobs as incentive management could, as illustrated in Chap. I? It would then not be a matter of "jobs wanted," it would be a problem of "men wanted" to make the necessary products when we eliminate useless jobs and the useless costs, and sell at the new low price.

There is no reason for war between labor and manage-

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ment in American free enterprise. There are endless jobs and endless satisfaction for all concerned.

War does not settle anything except the incompetence of our leadership. We must have cooperation between nations or we perish. In the same way, we must have peace in industry or our standard of living and our contentment in life must disappear.

This is a problem that must be solved by men of good will. It cannot be settled by governmental organization of a civil war forced on people who are in the same family.

CHAPTER VII

The Advisory Board

THERE IS LACK OF UNDERSTANDING

THERE is much feeling among all those connected with both management and labor regarding the labor union. The conclusions by each of the parties are usually diametrically opposed. Each is sure the other is bent on the destruction of all that is good and holy in industry. Each can cite endless cases to prove its particular point of view. Each, seemingly, can prove its case completely. Probably each is partly right and partly wrong.

The fundamental difficulty stems from the fact that our ideas as to the rights and responsibilities of labor and management cannot be stated accurately by anyone at this time. Further, those ideas are rapidly and continually changing. As an illustration, no one questioned the propriety of the master's attitude toward the indentured servant in 1700 when he spanked him for any small infraction of orders. If a boss should try that now, he would end up in jail or a hospital. No one a generation ago questioned the right of the employer to buy labor at any price that could be managed by a smart employer who used any means at his command. Such an employer would now go to jail.

Times have changed and no doubt for the better, we all

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agree. However, there are still no accepted rules, for instance, that can measure the proper wage payment for a day's work. No one can tell accurately what wages should be. Hence, the difficulty in arriving at any accurate and acceptable understanding on wages, hours, and working conditions for any length of time. One dollar was very gladly accepted for 10 hours of hard manual labor on a farm fifty years ago, as I know. Such wages would cause a riot now.

LABOR ORGANIZATION CAN BE USEFUL

It is not strange that many people see red when a labor union is mentioned. Abuses by unions have been great. Again, there is no agreed right that either the union or the employer has. What is right and proper is not a matter of any rule accepted by both. There is much opposed wish thinking as to what is fair, but no agreement or rule. Since there are no accepted rules, any conclusions by either side can be called into question by anyone with complete assurance. The acts are right or wrong, depending on the observer's ideas of what is proper.

This chaotic state makes mutual, friendly agreement on any contract between labor and management difficult. No matter what is done by either side, the other can claim, with every show of propriety, that the agreement is not only unfair but dishonest. When the labor union's viewpoint is supported by a labor government which is anxious to eliminate private enterprise, as that system is usually defined, much difficulty is inherent in the making of any labor agreement, no matter how honest both sides may be in their approach. There is no way to determine distance or weight without an agreed and immutable unit of measurement. There is no such unit in any of the important issues that exist in a labor-management contract.

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As an illustration of the difficulty of mutual agreement, the following is cited. We all subscribe to the sixth commandment, which states unequivocally, "Thou shalt not kill." No one doubts that therein is fundamental law. Immediately however, there are exceptions taken to it by all. We willingly justify the executioner who kills the culprit convicted of murder. It is killing, no less. We pin medals on the soldier who is successful in killing men, women, and children in an air raid. Thus it is evident that the sixth commandment needs explanation and foot-notes. In the light of such facts, it is not surprising that, with the rapidly changing and indefinable ideas concerning the rights of labor and management, much confusion exists. It is not at all strange that the reaction of the union labor leader should be very different from that of the employer. The labor leader can see no way of accomplishing his ends except by terrorizing the opposition. He justifies such banditry by the end in view: a better living for his followers. The employer sees only the destruction of property and can justify none of it.

It does little good to argue the points involved. Both minds are closed. Argument does not bear on the facts involved, as the seeming facts to one are not true to the other.

In the same way it will do little good to speak of the virtues of the Jap. He has none in the mind of most Americans now. He is a barbarian, an enemy of mankind, a brute, and a beast. Killing is too good for him. Not only that, he is a fool to worship his emperor who he feels is a god and who we know is not. There is no way that anyone can even think of a Jap except with a desire to kill.

Twenty-five years ago we regarded this same man, who was our ally, as a very enlightened person. In fact, we

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gave him a mandate over many islands in the Pacific Ocean at the end of the other war. We were sure they would be properly governed, since the Japanese nation had one of the oldest civilizations in the world. In fact, it was very old when our Pilgrim Fathers landed at Plymouth Rock in 1620.

There is no desire on my part to argue the case. I am merely trying to show how easy it is to develop a misunderstanding on moot points. It is easy therefore, to understand why all do not see alike regarding the rights of the labor union and management.

WE NEED A STARTING POINT

Our greatest problem in coming to any understanding is to get an agreed starting point on which management and labor can come together. If we can at the start determine what are to be the agreed prerogatives of the worker and the manager, there then will be little difficulty in arriving at a satisfactory conclusion.

If the labor union is to be a means of uniting all workers for the purpose of wreaking vengeance on industry for real or fancied wrongs, there will be much difficulty in getting a starting point for understanding. If it is for the purpose of forcing higher wages, shorter hours, or feather bedding, without commensurate production, the union will run foul of the consumer and be eventually crushed.

If, however, the union is for the purpose of unit action by labor in its quest for more usefulness in our economic system, its future is assured. Here is the great opportunity for labor. Here is the way in which it can make its ability most useful and its future more happy.

Let us approach the problem in this light. Let us develop the desire of both labor and management to produce a better standard of living, not only for themselves

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as union men but for themselves and all others as consumers.

Let us unite labor into an organization to forward its interest by forwarding the interests of all. Let us see how we can use its abilities to increase efficiency in production.

Here we have the use of the organization as a team with the team spirit for the common end sought by all. Such organization is very helpful. Such unit action perhaps could be obtained in no other way. But it must be the desire of both labor and management to accomplish the same end by this organization.

MILITARY MANAGEMENT MUST BE OUT

It is impossible to have an efficient organization of management and men with anything like military lines of authority. That kills, and obviously is designed to kill, any possibility of initiative from below. Unfortunately, ability does not progress with military rank. Since incentive method of management is designed to utilize the abilities of a whole organization from top to bottom, it must be diametrically opposed to the military scheme of authority. Military organization completely fails in competition with any type of industrial management that uses, even to any small extent, the abilities of all.

In spite of its obvious weakness, the military type of management has been used much in industry. It has, of course, failed in competition with any enlightened attempt to get cooperation.

It is obvious also that the labor union, as now usually organized and led, is military in its concept. Union labor is treated by its leaders as a class for which, as a class, certain privileges are demanded of the employer. Wage rates, which are the same for all regardless of ability, are

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obtained. This of itself stops the development of any incentive in the individual. The labor union feels that it must standardize all its members as only so can it control.

UNIONS MAKE MEN CLASS-CONSCIOUS

Making the union man class-conscious immediately makes him stagnant. If he cannot rise, and rise he cannot in the labor-union setup, he will always be a clod like every other clod in the same group. The whole philosophy of union labor is a labor class, all paid alike, all doing the same restricted amount of work, all employed for the same hours in the same way for all time. This philosophy cannot survive in an America of freedom of opportunity.

As long as this theory is held, we can be sure that American industry will rapidly slip back and eventually disappear in competition with foreign industry, especially since the union has the power given by government to force this conclusion. The thing of which the union is fearful will then be a reality. Jobs will, because of this false philosophy, become fewer and fewer. Real wages will be less and less.

ORGANIZATION OF WORKER NECESSARY

There is, however, very good reason for the organization of labor. Labor has problems different from those of management. It is necessary that these separate points of view be developed by each. Only so can mutual understanding be obtained. In our own case the method used to get this very necessary understanding between management and men was the formation of what we call an "advisory board." This board consists of one representative elected each year from each department by the workers in that department. The foremen also elect a representative from their number. This group, together

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with the superintendent of each plant, plus the president, who acts as chairman, forms the board.

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The members of the board, except for management, are paid \$100 per year for the time spent in the meetings and also for work which it is necessary for them to do outside of the meetings in contacting their constituency.

All matters that affect the organization are discussed and settled there. Although the president has veto power if action is taken contrary to the policy of the company, yet in 30 years of advisory-board operation it has never been used. This does not mean that there have not been many differences of opinion. However, a solution has always been found that is satisfactory to all. This group meets every other Monday at 4 P.M. and generally finishes its deliberations in an hour.

It is obvious that the fundamental philosophy of all board members must be the same if satisfactory conclusions are to be found. This philosophy has a few well-worked-out tenets, the result of years of experience:

1. That the job of our organization is to make a better and better product to be sold at a lower and lower price.
2. That piecework is the only fair way to reward a worker.
3. That a very large part of all savings effected in manufacturing methods or techniques is to be handed on to the consumer.

It may be illuminating to record what results have been obtained over the past 30 years by this advisory board.

WHAT THE ADVISORY BOARD HAS ACCOMPLISHED

First, 1914. Hours of employment were reduced from 55 per week, which was standard at that time, to 50 with

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a 10 per cent increase in wage rates. This resulted in more efficient production and actually reduced costs. This outcome had been expected and assured by the board members when the matter was suggested.

Second, 1915. The present method of piecework was set up. This has answered all problems that have been encountered in this rather intricate activity.

Third, 1917. Savings for the purchase of bonds, for savings accounts, and for buying the common stock of the company. The man determines how much he wishes to have set aside and the deduction is made in each pay check. When stock of the company is purchased, the worker must first apply for it and, if he qualifies, the sale is made. In order to qualify, he must have been in the employ of the company for a period of one year and also must have the approval of his superior. The stock must be paid for within one year and, if not, it reverts to the company and all payments made are returned to the worker. If at any time the worker leaves the company, he must return the stock to the company who pays the price then current, as set by the board of directors. This price is set each year and is approximately sixteen times the annual standard dividend rate. The price is the same for the buying and selling of stock. Normally, about half the workers are stockholders. Practically all stock of the company is held by workers who are in the company now or have retired from it because of age.

Fourth, 1918. An insurance policy on the life of each worker, which in case of death pays a maximum of \$2,000 to his estate. This is a necessary business expense and is well justified, as it removes another worry from the worker's mind. Neither this insurance nor the annuity (mentioned later) can be classed as paternalism. This insurance is paid for from the earnings of the men, at their request,

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for the purpose of their security. As a group, the workers can buy more security for the same cost than they can individually, hence it is done for and by the group.

Fifth, 1920. Vacations with pay for all the people in the company. Vacations had been usual with the salaried worker and had been found useful. Certainly vacations would be equally useful for the machine operator. It has been therefore the custom for a quarter of a century to shut down the whole operation for two weeks in August for a vacation, with pay, for all people.

Sixth, 1934. A yearly bonus system. This bonus is paid in December of each year. The amount is determined by the success of the company. Although it has been paid every year since 1934, there is no guarantee of its continuance. It depends solely on the earnings of the company for each year. The amount is determined by the board of directors and its distribution is made by the president in consultation with department heads.

The amount of the bonus is what is left after taxes, dividend, and seed money have been deducted. This sum has been great enough to make our workers the highest paid men in industry anywhere in the world. That is true only if wages are considered on a per hour basis. Our wages are the lowest in the electrical industry if considered on a per piece basis. This latter statement is obviously true. Only so could we produce at the cost and in the volume that is shown herewith. Only so could the necessary income for such wages and bonuses be made in a competitive market.

BACKGROUND OF THE BONUS

It may be of help in the thinking of the reader to relate the history of a former attempt I made toward a bonus scheme. When the first dividend was paid by the com-

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pany in 1918, I arranged for the payment of a bonus. I had always been convinced that the secret of efficiency in industry was the development of cooperation between workers and management. I believed, also, in the endless possibilities of man. Perhaps I did not see it so clearly as now. I did recognize the fact that if all workers wanted to accomplish the same end that I did, results impossible otherwise could be obtained. Many years in athletics in college and high school had shown me the value of team cooperation. With that experience in mind, I split the first dividend into two parts. One-half was paid as a bonus to the men on about the same general division as was made in later bonuses. The other half was paid as a dividend to the stockholders.

Since it was the first dividend the stockholders had had since the founding of the company 22 years before, they were content. The amount that was given to the men, however, was small in comparison with their wages. It made little impression on them in that "silk-shirt" era.

The main weakness in my thinking then was that I did not recognize the fact that the men must see that any bonus is not a gift but the direct result of their own efforts. That I failed to show. As a gift, it was paternalism, and paternalism does not produce a desire to advance. Perhaps because I was young and had been in charge of the company less than 4 years was the reason for the failure correctly to understand the problem. In any case, I concluded that the plan was wrong and stopped it. It was wrong as then conceived since it was not plain to the workers that it was the result of their efforts. Hence, it was thought of only as a gift from management.

The bonus that started in 1934 was right since it put the responsibility and the reward for efficiency where they belonged. The results speak for themselves. The reasons are obvious.

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Seventh, 1936. An annuity for all workers. The thought back of the plan is that when a man grows old he is likely to slow up. No company can, in fairness, discharge men who have served it properly throughout their lives. An annuity payable each month for the rest of their lives after retirement solves the problem. The company pays for this as a proper cost of doing business. It is entirely justified, as has been proved from our experience.

Eighth, 1941. The establishment of a trust to take care of the unemployment that then threatened to occur at the end of the war. Our normal force of workers was more than doubled when the war demand came. There was much doubt that these men could be retained when the crisis was over, especially since more than half of our regular men had been drafted and would be reemployed on their return. We therefore set aside \$1,000,000 in 1941 for the purpose of giving a separation allowance to these new workers when they had to be released. This proved to be a good plan as shown by increased efficiency. It accomplished its purpose, as can be seen from the record. We planned to set aside the same amount each year in which the necessity of employing temporary workers remained. The government, however, interfered and haled us before the Vinson Naval Affairs Investigating Committee, the claim being that we were avoiding taxes by setting aside this money. Just how taxes can be avoided in this way is difficult to see. The money in this trust fund belongs to the men and under no circumstances could the company get a dollar of it. However, if it had been held as profit, as the government wished it to be, the company could have retained at least 20 per cent of it after taxes. However, the government had its way, and this plan, so useful in efficiency, was stopped.

It is interesting to note that this plan now is urged by Congress as a proper activity and that a separation wage

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is urged for both the soldiers when they leave the service and the men who are released from employment in a war plant.

Ninth. All men in the armed services, by action of the board, are still in the employ of the company on leave of absence. All the advantages that they had as workers in the company still remain. They are returning under the same circumstances insofar as their employment and standing are concerned as when they left.

This does not mean that they necessarily have their old jobs back. That is determined by the best interests of the company. They are returning to the same advantages that employment in the company gave them when they went to war. This is not seniority. The only reason any man is given any job at The Lincoln Electric Company is that he is the best man in the organization for that job. That policy is followed in all cases from the sweeper to the president. Seniority is of importance only as the experience gained in getting it makes it possible for the man to do his job better. If he does not make himself more proficient, he is overlooking his opportunities. If he does that, he demonstrates his unfitness for either the job he is on or any advance to a better one.

The nine foregoing examples of the functioning of the advisory board show what has been done. It is impossible to record the many other decisions that are made at each meeting in a routine manner. For example, what should be done in wartime with men who go back to the farm because they are needed there more than in the factory? Should they lose their advantages as employees of the company? Should a pregnant employee, while having her child, have advantages different from those of an employee who stops work because of sickness? What is to be done with a man who gets drunk and comes to work under

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conditions suggesting a hang-over? What shall be done in the case of a man who does not give his best, both in effort and in loyalty, to his job and the company? What shall be the company policy in regard to employing women after the war? To put the matter broadly, the board answers the hundreds of questions that arise in any group of people in industry.

That there is always unanimous opinion in the board is not true. That the decision is invariably accepted by all as right is true. The value of the board in answering these problems is great. Certainly the value of the board in developing men is equally great, insofar as the future of the company is concerned.

HOW TO HANDLE AN ADVISORY-BOARD PROBLEM

Perhaps the following suggestions from my experience on the board will be of value to those interested. As is true in all dealings with people, the fundamental principle for success is honesty. This must be present in top management, first of all, before expecting it in those below in authority. If the president tries to put something over because of his greater knowledge and experience, he can be sure that he will not succeed very well. If he cannot be completely honest and frank in all matters, he can be sure that it will be best to disband the board immediately as it will save the time of all concerned and also remove a source of friction. Top management in acting on a board must take the same responsibility that it does usually. It cannot use its authority to make decision. By this is meant that the chairman must first be able to see the result of any action suggested. He must be sure then to state it honestly so that it is understood. Then he must rely on the board's action. If he cannot carry the board with him he fails, not the board. It is in this function of

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education that the greatest responsibility of management rests in this matter.

If the chairman distorts the facts to the board, he had best disband it. As an example, suppose a request is made for an increase in wages. The old-time answer is that the company cannot pay more wages without going broke. That is obviously untrue. If the manager does not know better than that, he should not be in the position of authority. If there is anything in this world that is true, it is that wages in any manufacturing organization could be doubled, tripled, or increased ten times under proper conditions. If the request is made for higher wages, the manager should be extremely glad, as it gives him the opportunity to explain what he and the workers must do to get the increase asked for. If he analyzes the matter accurately, he can show in detail what should be done to give more wages. It is true that he may himself need genius for his job. He should have it, as he is the leader. Both he and the worker will need to change their methods and their techniques. If, at this point, the chairman is bluntly honest and states all the facts that bear on the subject, he will take not only a step toward better labor relations but, what is tremendously more important, he and the workers also will have a new view of their possibilities.

Another necessary condition is to make sure that each person on the board feels free to state his case without hesitation. Most people who work at a bench are not so good at stating their thoughts as those who have more outside contacts. The worker is very much aware of this fact and because of it does not talk easily.

The greatest use of the board, beyond that of answering the problems that arise as grievances, is the opportunity presented to educate the worker in industrial economics. No one can read the statements made both in labor unions

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and in government without feeling that such education is a "must" if we are to have a successful economy. Such discussion should be encouraged. The fundamental facts of an industrial economy should be fully explained. The natural questions that arise on the subject should be carefully and completely answered.

In handling this problem, the chairman should be sure that he understands the problems involved and that he can explain them accurately. There is a great temptation to overstate industry's case by those who want to change the minds of the worker. There is no worker who is so dumb that he will not eventually detect any overdrawing of the facts. The case of industry is so good that continuous understatement is still amply convincing. Not only that, such treatment will increase the worker's belief in the honesty of the chairman. Such belief must be the starting point in any successful attempt at labor-management cooperation.

When we see that the three last presidential elections were decided in favor of a policy which is diametrically opposed to the present economic setup and which will destroy industry as it now exists, it is obvious that the worker, who was the deciding voter, did not know the facts of life. He will know them only by experience or precept from sources that he trusts. Some mistaken ideas about labor which must be corrected are the following.

SOME THINGS THAT THE WORKER THINKS

Most workers believe that the less they do the more certain they are of a continuing job. Most workers believe that wages are determined by the generosity of the boss. Most workers think that complete social security is an economic possibility. Most workers think that taxes can all be paid, except during wartime, without the wage

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earner's paying a cent. Most workers think that the price of any commodity bears no relation to its cost but rather to the grasping nature of the boss. In this they may have an idea.

It is well to remember also that most workers think that the American system of free enterprise is the best economic system for them. They think, however, that the bosses are dishonest enough so that government has to step in to keep them honest. They are willing to support such a government. They do not think much further, but that is not strange since some bosses are equally fuzzy in their thinking.

All questions raised in the board, if they cannot be dealt with immediately, should be answered without delay. Delay is dangerous. Be frank and straightforward. Give all information on any subject that is asked. The great trouble with worker-management relationship is that many of the ideas in the mind of the worker are wrong. No one has convinced him otherwise. If you want the worker to be a partner in the business, insofar as his efforts are concerned, make him a partner insofar as his knowledge of that business is concerned.

Do not hold back facts as to salaries, wages, dividends, profits, and plans. The worker is honest and will treat the company honestly if he can trust the company. He will take care of the company's interest when he feels that such effort is in line with the company's policy toward him. Remember, he may have been fooled before by a boss, so that he is now suspicious. That is management's shame, challenge, and opportunity.

How Jobs Are Made

THERE is much new thinking concerning the proper place of government in our economy. The old and tried concept that government's job is to protect the liberty of the citizen has been set aside by the New Deal. In this thinking, it is government's job to assure the citizen of a living either by giving him a job, if he does not find one to his liking himself, or by giving him enough money taken from taxation on all citizens. Government in this concept is returning to the plan of the feudal lord of old who guaranteed his serfs a living, a job, care in sickness, and a funeral if they gave him first call on their earnings. There are many who subscribe to this outmoded economy with enthusiasm. It is to be noted that they are not fully informed in some cases.

We hear labor leaders demanding higher wages guaranteed by government so as to give to the worker high purchasing power. Their claim is that, because of the lack of high wages and the resulting lack of purchasing power, workers cannot buy all the products of industry. Because of this, the union claims there are no jobs, since the consumer has not the money to buy the products manufactured. Manufacturing, therefore, must cease.

When Germany during its period of inflation is cited as having unlimited money wages, yet little purchasing power and few jobs, the reaction is invariably "that is different, that is inflation."

No reasoning individual can agree to such a conclusion. If money is purchasing power, then the German government solved the problem completely at the time she inflated her currency. The reason Germany had little purchasing power proves conclusively that money wages of themselves cannot assure it. Money wages may or may not be purchasing power. Hence, money wages, no matter how high they may be, cannot alone create the purchasing power necessary for jobs.

We hear much from the politician about his job-producing plans through governmental spending. They will and can, so the politician claims, produce jobs by building dams, planting forests, plowing under crops, and putting through other projects on the taxpayer's money. These politicians, however, always fail to enumerate the jobs that they destroy when they take this tax money from the citizen. Government cannot spend money so efficiently as the citizen from whom it is taken. If reason will not show that, America's experience with "pump priming" proves completely that governmental spending of taxes does not answer the question of jobs. We must look further.

Perhaps we tend to oversimplify the problem by speaking only of making jobs. At no time is there a lack of jobs that can and perhaps should be done. There are endless jobs that anyone can do if he will. Some of those that come to mind would even be very valuable if they were done. Beautifying the highways of the nation by planting and cultivation is one such job that would employ countless workers forever. Filtering the top soil out of the

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Mississippi River and returning it to the land is another useful and endless job. The only difficulty is that no one so far will pay for doing this work.

DO WE WANT JOBS?

Valuable employment is not what is meant by "jobs." Making jobs as meant by the worker and the politician means the giving of employment at a wage that is satisfactory to them, at work that they want to do, and under conditions that they like. That is obviously an entirely different thing from finding useful work. There are millions of jobs that a union man is not allowed to do because of union rules. There are millions of other jobs that no one will do because the work is not liked or the wages are not satisfactory. A carpenter cannot attach a light socket. A plumber cannot drive a nail unless he is willing to take a broken head and a fine from some union in return. In the same way, a bookkeeper will not accept a job as a ditch digger. Often a white man will not accept a job with a negro. Every citizen of the United States could be employed at subsistence farming. That will always be an inexhaustible source of jobs for all. We will not take them, however.

Giving jobs, as generally understood, is something else. Even if someone is willing to produce the money for proper wages and working conditions, the tools for production, and the raw material for the product, that often is not considered as giving jobs by the union worker, the politician, or the shop steward, as has been shown.

WHAT IS MEANT BY GIVING JOBS?

Let us then consider what the phrase "giving jobs" really means. When we speak glibly of giving jobs, what is really meant is not a job at all. As a matter of fact, the

person seeking a job does not necessarily want work; he actually wants a standard of living. He thinks that he perhaps has to work to get it, therefore he is willing to take a job if it is satisfactory to him. That is manifestly not just having jobs available. In fact, if he can get the standard of living he wants and not have to work at all, he feels that he has arrived. A job carries with it a certain stigma which he would gladly pass up if he could live satisfactorily without work.

The question then is: How can we produce a standard of living that is satisfactory to all? That is the real question with which we must deal. It gives an entirely different approach to our problem.

GOVERNMENT CAN MAKE JOBS

Let us therefore discuss the only two ways that have ever been suggested as methods for producing a standard of living. The first method used in America is the industrial system of free enterprise. (The economics of this is discussed elsewhere in this book.) The second method is governmental feudalism in many different forms. The first is carried out most successfully by developing, as individuals, the opportunities in industry of all kinds that our imaginations, our freedom, our natural resources, and our abilities give to us. The second is the employment of the individual by a dominant government on work proposed by it and paid for out of taxes.

Let us investigate these two philosophies. First, consider the plan whereby government employs the citizen on its projects, paying for them by taxation of the people. This is the popular plan now in many quarters. We may properly call this plan "pregnant feudalism."

It is obvious that the only money available to carry out this plan must come from the citizen. Government never

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did, never can, and never will produce a dollar of profit. It can only spend what it takes from the public. If it takes money from a citizen, he has that much less to spend himself; therefore, his buying is decreased in exact proportion as government's buying power increases. Because of less buying by the taxpayer, there are fewer people employed to supply his wants. If instead of individual taxes, government takes the money from industry, which it does with great enthusiasm now, there must be that much less to buy the tools and materials which industry needs to expand and produce jobs. The fact that no industry can grow under the present system of confiscatory and punitive taxation, as admitted even in Congress, shows the outcome of this plan hatched by political incompetents.

The above is, of course, never admitted by government officials who insist on the theory that government can make jobs. They will cite the jobs paid for by tax money and point with pride. They will not admit that in taxing the citizen for the necessary money they have stopped other greater employment. If the politician is questioned, the retreat is always into the claim that men must have jobs or they will starve. Virtuously he claims that he is not going to stand idly by and see that.

GOVERNMENT CANNOT PROPERLY RUN INDUSTRY

No one can take seriously the claim of government to make jobs if he thinks the matter through. Government cannot produce anything of itself. This we know from bitter experience, not only here but in every other country in the world. An inexperienced bureaucrat cannot run an industry just because he is on a government pay roll. Being hired by the government and being put in an office in Washington do not increase a man's knowledge, experience, or ability. It does confuse him, because he will

have to follow a lot of red tape put in by other confused people. The fact that the man could not run a business successfully before he was hired proves conclusively that he cannot afterward. Would anyone turn to a government employee to fix his automobile or his watch or to take out his appendix? He would not. He wants the expert that he knows about. That is the only person he wants to do any of the things that are important to him. Such experts do not seek employment in government. They stay in private industry with its opportunity and spur to ambition and reward for success.

If we do not trust the government employee to do such comparatively simple things, what chance is there that we shall be satisfied with the results if government is responsible for producing our standard of living by running all industry? Can government produce "an ever-normal granary"? Try to buy some meat that is fed from this granary and see. Can government direct industry, even in wartime, successfully? It has built billions of dollars of plant and equipment that were never used and never needed. When we will trust our child in an orphan asylum, when we are willing to have the political boss make the decisions involving our future, when we are willing to let him spend our income instead of ourselves, we can then look to government as our friend, adviser, and support. We can then believe that government can "make jobs."

The laws of nature and economics have not changed because of political theory. We do not change fundamental laws by passing a Federal law. The law of gravitation and the efficiency of the golden rule are not subject to review by Federal authorities.

Although the above is obvious, the matter does not stop there. Since government has the power to go into debt by mortgaging the citizens' wealth, there is a great

backlog of money that can be used without resort to taxes. By exploiting this borrowed money, government can do many things that will not necessitate at first actually taking taxes for the purpose. The ultimate penalty of taxing industry to death can and has been delayed in this way. Results that are seemingly at variance with the facts can be temporarily achieved. Some of the penalties of killing employment by taxation can be put off and have been by the present government by this means. The penalty is, of course, only delayed and hence greatly amplified.

There are also many millions of citizens who feel that if we can only think of the right law we can live at ease, without work, supported by a paternalistic government. Social security, they think, is an open-sesame that will remove man's responsibility for work. Mention Germany as a government that tried it and failed, and they sputter about Hitler. Mention Russia as a government that does it and they scream "Nazi lover." Mention the taking by government of all the money collected for social security and using it for other purposes, hence the necessity for collecting two or more times the needed money for the same security, and they scream "Roosevelt hater." Perhaps America must learn the hard way. Precept, perhaps, is for school children only.

When the inevitable explosion comes, these same people will no doubt hesitate to criticize the New Deal fumbling. They will blame someone else. Perhaps it will be Wall Street, the Jews, the money interest, international bankers, or the administration that is then in office.

INDUSTRIAL PRICE POLICY ELIMINATES JOBS

The second danger to jobs for all is the policy of "all the traffic will bear," as practiced by some misguided industrialists. This danger is not too great. It normally

could not exist under a completely competitive industrial system. To keep the system competitive with all on an equal basis is the proper responsibility of a democratic government. Industry makes productive jobs. Government cannot. Government can guarantee individual freedom. Industry cannot. Let's not allow either party to get out of its proper sphere. When the citizen insists on each doing its proper job in our national economy, we shall have taken the first step toward a solution.

This whole theory of governmental production of jobs and social security is so completely at variance with the philosophy of private enterprise and incentive management that a decision between them must be made. There is no possibility of having both, any more than it is possible for a kept woman to have self-respect.

The fundamental theory of social security is based on the idea that it is the responsibility of all producers of wealth under government direction to support those who cannot or will not work. The plan goes further. It places on the more able and more industrious the tax responsibility at a sharply increasing percentage based on their productivity. Obviously, as those who receive and do not give under this system increase in number and power at the polls, their demand for increased benefits becomes louder, as we are now seeing. As these benefits are increased, the number of the benefited and their demands grow still greater. The outcome is obvious. No man will work long with enthusiasm if he cannot receive the benefits of his efforts and ability. Hence, he slows up or goes on social security himself.

Industry found that cutting the price of piecework resulted in the slowdown. In exactly the same way, we shall find that the supplier of the funds for unemployment insurance, sick benefits, old-age pensions, in short, support

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from the cradle to the grave (now so enthusiastically recommended by the "do-gooders") will quit. Human nature is made that way. We all feel that unless we can benefit by our efforts personally we are fools to make them.

The socialistic concept, "from each according to his ability, to each according to his need," results in the elimination of "ability" and the enormous increase of "need," which has made and always will make the plan impossible to operate. As the weakness of the plan shows up in deficits at first, deficit financing can be used until inflation stops that. Revolution follows immediately.

That routine has occurred no matter who is the payer or who is the payee. The results are the same if the supported is a king, as in France at the time of Louis XVI, or the unions in the same France under the Blum government just before the war.

This is not an argument against any system as such. The only reason that the matter is discussed is because it is decisive in its effect on incentive management. There is no possibility of getting the results shown in Chap. I unless the individual has the will and the incentive to develop and grow. No form of feudalism can encourage such growth.

AMBITION NECESSARY

There is little argument needed to show the soundness of this conclusion. No man is willing to put forth his best efforts if someone else whom he cannot designate is to get the benefit. He obviously would have a slave reaction if he should be willing. That is the only reason why the slave objects to slavery. That is the only difference between freedom and slavery. The free man works at the job he picks for himself in which his efforts will be most useful and he will receive the reward for these efforts

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himself. In this way the free man can express his own personality by his skill and get the ultimate satisfaction from his work. The slave can do everything the free man does but he gets no satisfaction from his efforts because the reward is not his. That goes to the master. The slave has no incentive to develop his latent capabilities and therefore does not. The free man has the incentive and because of it, and it only, he develops those latent capabilities. That is the reason the free nation has always risen in competition with the totalitarian nation. That difference has always been decisive in the rise of nations and always because of their freedom.

It is well to remember also that both feudalism and slavery disappeared not from the rising up of the serf and slave against their masters. These economies disappeared because they lost out in competition with free enterprise and for no other reason. It is also well to note that the prosperity of all countries since the advent of the industrial revolution has been in direct proportion to the freedom of opportunity for the average citizen. That is history.

There is no such thing as universal security flowing from government's attempted responsibility to give social security. The security of one must be obtained by giving less security to others. Someone who needs security relatively less must be the supplier of the security given by government. He, being human, will not go along with such a plan willingly. Forcing him to continue his contributions will result in his opposition and stagnation and with these the stagnation of the whole people.

TAXATION CAN BE DECISIVE

The present graduated income tax, which excludes the possibility of the able to profit from their ability, will in the same way that serfdom did eliminate the best efforts

of the able in our economy. What is more serious, it will stop the further development of the latent abilities of those on whom we depend for leadership in our economy. Not only that, it will kill the desire of the rising generation to develop. This, if continued, will wreck our economy if we are to meet the competition of other nations who give freedom of opportunity to their industries and their citizens.

The reader may feel that this discussion of the dangers of our policy of taxation for social security is overdrawn. There is no evil that progressively takes over our energies or threatens our future that does not seem less than it really is if we have grown used to it. Taxation and the resulting governmental feudalism are a case in point. It is doubtful if we fear it nearly so much as we should, since it has crept up on us without our being conscious of its ultimate effect on us and our future.

I wonder what our reaction to the governmental taxation would have been if, at the time of the passing of the income tax law, we had been told that this law, with its double taxation of profits and renegotiation, would take from the stockholders in many cases over 99 per cent of every dollar of profit made by the industry.

Perhaps that would be excused by the statement "that can happen only to the rich stockholder who gets too much anyway." How should we have reacted if we had known that a widow, whose sole income was from 100 shares of stock of The Lincoln Electric Company, was to be taxed 95 per cent on her part of the profit of the company? Out of \$12,000 of company profit, the government took \$11,400 and left her \$600. Still more important, a large part of the \$11,400 taken from her by the government would have gone to the consumer in lower prices, had not government grabbed it out of her hand. I wonder

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how much enthusiasm there would have been for our tax laws had we known this was to be the outcome when the laws were passed!

WAR DOES NOT EXCUSE

We, of course, excuse the present high rates by the statement that we have been fighting a war and therefore taxation must be high temporarily. If only that were true, the future would look brighter. The war is over, yet we are planning a victory loan drive for 20 billion dollars. We are also planning a national budget of 25 to 30 billion dollars per year in peacetime as a minimum just to operate the government. That is a greater percentage take by government of the income of the American citizen than any feudal lord ever took from his serfs. It is doubtful if even that will be enough to operate government in the times just ahead.

Making jobs by governmental action, about which we hear so much, would have seemed strange to us prior to the industrial revolution. The problem then was to get the necessary work done so that people could exist, so that starvation could be stopped, so that life would be livable.

The only reason for any problem now is because private enterprise has so enormously raised our standard of living that it has largely eliminated the spur of necessity that was the controlling factor in the previous economy. The success of our industrial system has upset our judgment. We have gone "screwy" from this sudden access of wealth that private enterprise has given to all people. We therefore try to believe that if we can only think of the right law we can go much further than we have. We do not see the danger that upsetting the system introduces. We only hope that we can by governmental action get more for ourselves and cut down those who, by their success, have

risen higher than we have. Unthinkingly, we are attacking the very structure that has made our success possible. When we see the wrongness of our policy it will be too late. The golden-egg-laying goose will be dead at our hands. The golden eggs will be gone.

Government is a very necessary activity. No nation can progress without it. It has often, however, been the means of wrecking much human progress. It is a necessary friend. It has been the world's most heartless tyrant. The greatest problem of a free people is to keep this helpful friend from becoming a Frankenstein monster.

Government can do the very necessary job of protecting our liberties. It cannot operate our lives. It can promote freedom of enterprise. It cannot create jobs by its power. We Americans must keep it in its place, or we perish.

CHAPTER IX

How to Install Piecework

THE statement has already been made that piecework is the only proper way to pay for production. The point was made that this was true since it gave an incentive for the worker to do his best and thereby increase his skill and ability. There was no attempt at that point to develop a method for installing the piecework system. Such installation is a difficult and intricate job for management if piecework is to be the boon to the man and the industry that it can be.

Perhaps there are some who will question the propriety of piecework as the only basis of wage payment that can be used properly. There are many, particularly in government and the labor unions, who are very violent in their opposition to it. Perhaps they have reasons for this opposition but their reasons are not sound. The government bureaucrat opposes piecework since he cannot control the amount of wages a man earns under piecework as easily as he can when payment is made by the hour. That is hardly a real criticism.

The union leader opposes piecework payment because he feels it will result in speed-up and will work his men out of jobs. If this is true, there is a valid reason for this

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opposition. This conclusion, however, will scarcely hold water as will be shown later.

The only other opposition comes from the man himself who has been "gypped" by management, so he feels, and hence wants no part of the plan. All these objections have, at least seemingly, some basis of argument in their favor. It will be shown below that all these objections with any basis in fact can and should be overcome by proper management. The methods to be followed will be indicated.

WHY NOT PIECEWORK?

Piecework is the proper basis for paying wages because that is the only way in which production can be accurately paid for. This fact is accepted in most activities outside of industry. We do not pay a surgeon by the hour for performing an operation. In fact, his success and hence his reward are often determined by how quickly he can finish the job. On this the life of the patient often depends. We do not pay a shortstop on a baseball team by the hour when he is the pivot man in a double play. In fact, the less time consumed the better and the more expensive the shortstop. When the same shortstop comes to bat later, he is not paid three times as much for striking out as he is for hitting the first pitch even if striking out does take him three times as long. The same conclusion is reached regarding the preacher, the artist, or the inventor. The only reason we pay by the hour in the case of the industrial worker is because it is an easy way to figure wages and has been customary over many years. It is obviously unfair and in incentive management is very detrimental to proper progress.

The main objections to piecework come from improper methods of pricing the operations, and from the tendencies

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of management to rectify its mistakes in pricing by ways that the operator feels are unfair.

As a plan of wage payment, piecework is undoubtedly the only one that can be made accurate. The objection to it is not its lack of soundness but its inaccuracy or dishonesty in application. Because of these difficulties, it is little used in industry. It is my belief that it must be used in incentive management if the plan is to succeed fully. There is no other way of measuring the capabilities of a worker or accurately rewarding him. Unless such a measure of his abilities is made, there is no means of computing his contribution. There is no other way that he can play in the game successfully. He must see his score in assists, hits, errors, and also in runs batted in.

Because of its importance in the application of incentive management, I am discussing the subject in some detail. Again the criticisms made are not of all industry as such. The actual faults listed are probably now unusual. However, the reputation that these faults have given the system and industry generally still linger in the minds of the worker and are made a reason for nonacceptance by him and his leaders of this very proper method of wage payment.

HOW SET PRICES?

In the less intelligent methods of setting piecework prices the following mistakes are frequently made. The job to be priced is on day work, and management wants more production and a lower labor cost. Perhaps also there is a bottleneck at that point and production of the whole plant is limited by it. The careless manager under this pressure will frequently reason as follows: "I am getting one piece per hour on day work. I am paying \$1 per hour. If I put the job on piecework and

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make the price per piece 75 cents, then the man will speed up to $1\frac{1}{3}$ pieces per hour to make the same wages. Hence, I will get $33\frac{1}{3}$ per cent more production and a third labor saving. I will put the job on piecework at that price."

Under these conditions one of two things will happen. If the man believes the manager who offers 75 cents each for all pieces made, he will speed up his operation, draw on his imagination, and correct the equipment to obtain greater efficiency, insofar as he is able. If he does this and is an able operator, he will make two or more pieces per hour.

In the usual plant, however, where management would set a piecework price in this way, the man would not believe management. Obviously he should not, since the manager does not know what he is doing. The worker therefore will not increase his output and at the same time he will call the manager under his breath (the breath getting stronger as union domination increases) a cheating bastard.

HIGH OUTPUT ALSO STUMPS THE MANAGEMENT

If, however, the worker is naïve enough to believe the manager and makes as many pieces as he can with both his head and his hands, management is then in a real quandary. Here is a man who, with his own ability and ingenuity, is making many times as much money as he did before. He also is getting many times as much wages per hour as the other men in the department. If the matter is allowed to continue, there will be real trouble from the rest of the men. The manager who made the piecework price is therefore called on the carpet both by the complaint in the shop and then by his boss in the office. Something has to be done to reduce these troublesome earnings because of the increase of efficiency of the worker.

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Of course, the trouble is primarily the fact that the method of pricing was wrong. In many cases that will make no difference. The man who set the price will protect himself at the expense of the worker and the reputation of the company for honesty in its dealings with the worker.

In the usual plant the time-study man who sets the wrong price learns of the high earnings before his boss hears about it. He breaks his contract with the worker and cuts the price. This settles everything in his mind. The worker is called, and properly so, all kinds of fool by his buddies. The company has no further trouble with high earnings. The boss in the front office, who is responsible because of his position, hears nothing; and inefficiency is again even more strongly entrenched.

The fundamental difficulty here outlined manifestly is that those in charge were incompetent to do the job of installing piecework. Had they been competent, they would have known before they set the price how the job should be done. The operator then could not have bettered the price set. The time-study man would have laid out the operation properly and taught it to the man at the start. The man then could not have improved on this method except by new ability or skill. What is more to the point, the price would have been right and the operator would have had respect for the company and the rate setter.

NEW APPROACH TO PIECEWORK

If we are to use the piecework system, we must have an entirely different approach to it than the one given above. We must also have one that is not subject to any of the many variables of this same fundamental mistake.

Piecework is basically for the purpose of inspiring and training the worker to do his best. It is not primarily

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for the purpose of getting him to do the work for less. The resulting reduced labor cost in most cases is only a by-product of piecework. If no saving at all were made in the direct labor cost per piece, the added production that the incentive of properly made and accepted piecework prices will effect would increase profit by reducing overhead cost. Direct labor is always a small part of overhead costs. Overhead is a constant cost per hour. If the production rate is doubled, this overhead is cut in half. Piecework increases speed of production. It is this increase that is more important than direct labor cost. This must be the chief end sought.

The setting up of a piecework system is one of the most important and most difficult operations in all manufacturing. The skill and training of those responsible should be on that basis. We would not allow a tyro to set up a system of books for the company. We would not allow a beginner to design our machines. In many plants, this extremely important task of setting up and operating a piecework system, with its revolutionary effects on costs and labor relations, is put into the hands of men and boys with little training in manufacturing methods and even less in human relations. It is little wonder that they so often completely fail.

The routine related above, or one fundamentally like it, is usual in many plants that try piecework. The result is a straining of the relationship between management and men. The result often is that the men will not operate on piecework. If they do in the places where it is the easiest way out for them, they limit their production to what will not cause question. This reduced standard is well known in every shop. It is rigidly adhered to by all men. They learn about these facts of life almost as soon as they learn their way to the John.

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In any successful installation of a piecework system the approach should be made from the point of view of the worker. The whole end in view is to get him to do two things: (1) to use his ingenuity and skill to produce at maximum speed and (2) to develop his latent abilities to their utmost. If this is done, the system will be a tremendous success. If it is not, the system falls short of complete success by that amount.

If the point of view is that the installation of piecework is a speed-up, the results will not be complete success. If speed-up results in great increase in output, it should not be taken as an indication of the success of the piecework plan installed. It only shows how inefficient the work was before.

From this discussion the following facts are apparent: The man who is to put the system into operation must be an expert manufacturer as well as an expert in human relations. He must have the development of the individual as the ultimate goal and guide in his planning. He must be fair and honest. Because of the bad reputation of piecework he will have an uphill battle at first. This will mean that he must be equipped with a vast store of patience.

TWO LAWS OF PIECEWORK

The two fundamental laws therefore in installing piecework are (1) develop the best obtainable method of doing the job and set a proper price on that method; (2) when the price is set, regard it as a contract that cannot be changed by management no matter what happens to earnings. There has never been an unsuccessful application of piecework where these two rules have been properly followed by management and understood by the operator.

Before leaving this subject it may be well to discuss the

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question that is always asked by the usual management: How do you cut piecework prices? The answer is given above: You do not.

The actual query in the mind of such a questioner is this: If there can be no change in labor costs, such as this guarantee of piecework prices seems to mean, how do you make a "better and better product at a lower and lower cost"? The answer is implicit in the question. If a better and better product is made, it must be a different product, which means different designs, materials, and operations. Piecework prices will be set on these new processes and operations. These new prices will include all manufacturing progress that has been made up to that time by the whole organization. When the price is set, however, it is final. These prices will, however, follow the rules. They will be the best methods that can be devised at that time.

SOME HINTS TO THE QUESTIONER

Those principles are all that are necessary in installing a successful piecework system. The rest is detail. As these details may be important in eliminating friction, the following suggestions are made:

As mentioned previously, it is perhaps easiest to get piecework started by taking one man in each department, and one man only, until the plan is well established and understood by him. When his satisfaction with the plan is what it will be under proper handling of the problem, the rest of the department will clamor for the same plan. It will not be necessary to put piecework in. The men will be anxious to do whatever is necessary to get under the plan.

EXPERTS NEEDED

It is essential for best results that all time-study men be operators of long experience and original thinking, who

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have come up through the department. They must be experts in manufacturing and in doing the jobs on which they set times. They must at any time be able to demonstrate the time and the methods they set. Demonstrations at frequent intervals are good for the time-study men themselves and for the morale of the shop. Never allow men of little experience to do the job of price setting by working a slide rule and a stop watch. There is a lot of human nature in getting cooperation between management and men. Respect on the part of both is essential.

It is well to arrange so that, when any man has something on his mind that may retard his efforts, there is a well-understood way of getting it off. Perhaps his kid or his wife is sick, or he has a payment on the house that he cannot meet. That may make him critical of a price, or the foreman, or the light, or a draft, or the company. We all have the same experiences and we all are apt to blame things that are entirely extraneous. Make sure that the man can blow his top at any time without injury to his future. Make sure that advancements come from within and that the operator's ability to produce is the first recommendation for advancement. He should be made very proud of his ability, and rightly so. Too much cannot be made of this if praise is completely honest.

WORKER RESPONSIBLE

The worker must guarantee his work. Poor work must be made good by the operator on his own time. This is just as essential as the guaranteeing of the price by management. Each must have self-respect in his dealings with the other.

When a new operation is timed, it is a new job. Of course, a new price is put on it. If timestudy makes a mistake and sets a price that is too high, this improper

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price will be shown up by the operator in extremely high earnings. The incompetence of the time-study man should never be allowed to be covered up by making a small change of no real importance in the job, method, or tooling and retiming it. This new price would be a cut in the piecework price, just the same as any other scheme that has given the piecework system its bad name. This is, of course, plain robbery. If a time-study man did such a thing, he should be fired immediately. He is a crook and cannot be trusted to uphold the integrity of the company. No management can pussyfoot here.

The operator will play the game if he is convinced that common honesty is used by management. If there are any doubts, and honest doubts will sometimes exist, they must be settled in favor of the man. As an illustration, consider the difference of opinion that may arise as to the price on a given job. Although it is essential that the company guarantee the price it puts on any job for all time, the man must have an "out." We call it a "challenge" which the worker can use on any price at any time. When he challenges a price, that price is eliminated immediately and the job is without one. Under such conditions, the time-study man handling the job sets a new price by any method he chooses. It may be higher or lower, depending on his decision. That price is also guaranteed by the company for all time but is subject to challenge by the worker. If, however, the worker challenges again, it is usual for the time-study man to demonstrate the job himself. Whatever time is made by that demonstration becomes the new price. This price also is guaranteed by the company but is still subject to challenge.

It may seem that price challenge is continuous. The fact is, it is rather infrequent. The reason is that the time-study man knows his job. When the price is set, it

is made on a predetermined method and motion plan determined by him. If the plan so laid out is followed accurately, the resulting time must be in accordance with the study. If such a study were challenged, the time-study man can, of course, demonstrate the study and usually can better it. There is also a good deal of respect for time-study's ability, and there should be.

FAVOR THE WORKER

There is a very real reason why the worker must be favored, as indicated, in all decisions that affect him. He is at all times in a position of inferiority to management. His livelihood can be taken away from him at a moment's notice by the boss. There is no equality of position there. He can be put at poor jobs that he should not have and he has no recourse. He can be reduced in rank and pay and future at the whim of the boss and he has no recourse. Unless this position of inferiority is compensated for by some means so that he feels he has an even break, he will have a state of mind that can easily develop into a persecution complex. That is a very real problem in many plants.

This persecution complex can have very destructive results. Men under such an attitude cannot develop the latent capabilities that are the real reason for the outstanding performance of successful companies. A man must have opportunity and a feeling of equality to take his proper place in the scheme of things. He will underrate himself otherwise. The management that can accomplish the installation of such plans and have them fully agreed to by all in the activity can and should write its own ticket. It can outproduce all others in profits, in wages, in costs, and in usefulness to the world, which, after all, is the real measure of success.

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THE INCENTIVE PHILOSOPHY

There is still in the minds of the worker, the union leader, and in some places of government a real question as to the rightness of any system that will increase the rate of production by as much as twenty times, as shown in Chap. I. There is still the feeling that the only result will be technological unemployment which can be answered only by intervention of government, by made work, or by some plan that will slow up production.

There is still in the minds of many people the feeling that there is only so much work to do. There is also, in many places, the feeling that invention, which increases the rate of production, is antisocial and should be stopped.

Let us examine this matter carefully because, if that conclusion is true, incentive management is wrong and our whole increased production resulting from the incentive development of man is wrong and should be stopped. Many now hold these opinions in labor, in government, and in all flop houses.

Let's first find out if there is only so much work to be done. There has never yet been produced any useful thing that has not been used. There is not the slightest doubt that if twice as many automobiles, twice as many clothes, twice as many houses, and twice as many radios were produced, there would be someone who would want every one of them. It may be that he would not have the money to buy them, but he certainly would have the desire for them. There has never yet been a time when the desire for useful things has ever been satisfied. At no time has there ever been any indication that there can be an overproduction of useful things. There has never yet been the feeling that the standard of living which we have produced is too high. There has never yet been

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any other indication by any social planner than that at least one-third of the people are ill clothed, ill fed, and ill housed. The middle third want a great deal more than they have. And even the top third also want things they cannot get.

ALL DESIRE MORE

If we compare our standard of living now to that of even a generation ago, we see that it has advanced tremendously; yet the desire for a still higher one is just as keen now as it was a generation ago. In fact, it is keener. As progress is made upward, our desire increases for still further progress. That urge has made man what he is. That urge will never stop because of satiation. The only one we see who is content with his standard of living is the bum. All others are always striving for more and greater satisfaction. We are safe therefore in assuming that the desire for such progress will never stop.

We have also seen that as we produce more efficiently, which means faster, the cost goes down in direct proportion to the rate of production. Hence, the fear of the worker that he will run out of employment if he increases his efficiency is without foundation. The exact opposite is the fact. As the things that industry produces become cheaper, they develop new desires that must be satisfied. The only danger is not too rapid production but limitation of output.

A generation ago no one wanted such things as an automobile, a radio, an airplane, and penicillin. Now they are all "musts." We do not want rocket propulsion or atomic energy now. A generation from now they will also be "musts." A standard of living that is common for the factory worker now was impossible even for kings a hundred years ago. The king then, however, never

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missed it. Joe Glutz now insists on it, so far has industry taken us and him.

It has always been true of almost every human being that increase of possession whets the appetite for more. It is trite to cite man's aspirations for all valuable things, from money and real property to education and mental achievement. Man never is content with things as they are. The accomplishment of today becomes the inspiration for the acts of tomorrow. There can be no overproduction. All this is obvious. The only question is whether man works himself out of a job by too rapid production. It is plain that such a conclusion is not reasonable, but nevertheless men do lose their jobs because of no work. What is wrong?

INCENTIVE AND HIRING STANDARD

It is perfectly obvious to the most rabid limitation expert that, when Robinson Crusoe landed on an island by himself, his standard of living depended solely on the efficiency of his production. When his man Friday came along, the same thing was true. When 10 people, 20 people, 50 people, landed on the same island, we agree that the standard of living still depended entirely on the efficiency of production and the number of hours that each worked. We seem to lose our sense of direction, however, when we put 50 million on this same island. We somehow think the answer is different. It is not.

There is not the slightest difference between Robinson Crusoe and his small band and Uncle Sam and his large group of inhabitants. The struggle for a higher standard of living will continue as long as man is man.

That answer and the analogy are not enough to satisfy anyone completely. We all recognize that we have the desire for more. Our trouble is, we say, that we have not

the purchasing power to satisfy those real wants, which admittedly continue to increase. The question can very well be asked: How is man going to get the purchasing power to satisfy these wants, when often he loses his job? No man can purchase if he has no income.

THE STANDARD OF LIVING?

That question is the reason for this book. Incentive management gives the answer. As has been seen in Chap. I, our wages have been doubled compared to industry in general. This certainly doubles the purchasing power of our workers. That is only the start. The high efficiency obtained does the other very necessary thing. It has lowered the cost of all our products by more than 50 per cent. It also doubles the purchasing power of all who buy our products. The purchasing power manifestly has been increased four times.

There is a still greater and more important result that emerges. Although it is true that our costs were reduced by more than half, that result was obtained by us alone in the face of rising costs on all our material, as shown in Chap. I. It is obvious from these data that, if all industry had applied incentive management in their operations and had been only as successful as we were, a revolution would have occurred in standards of living. All products would have been reduced in cost, not by 60 per cent, as in our case, but in the same proportion that our labor cost was reduced, which approaches 90 per cent.

It is manifest that this, because of decreased prices, would have increased purchasing power by at least ten times, this being our reduction in man-hours. The question then becomes: How much more would be purchased if purchasing power were increased ten times? Certainly our standard of living would be that much higher. Cer-

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tainly want would disappear. Certainly our economy would take on a new and brighter hue. The matter of standard of living in the light of our present horizon would be solved. That does not answer all questions, however, since we shall aspire to a still higher plane and shall want more. We can feel that we safely face those problems, however.

That is the reward that incentive management holds out to the American people. That goal would be reached if incentive management was only as effective in all cases as it has been in ours. There is little doubt that much greater progress than that shown in Chap. I would be made if all American manufacturing genius were concentrated on the problem of incentive.

There is still the problem of labor working itself out of a job to be considered. This bugaboo would still face us. With ten times the production and a tenfold higher standard of living for those who are employed, the doubter will still shout that labor will work itself out of a job at such efficiencies. What good will it do for those employed to have a standard of living ten times the present, if the worker cannot get a job to buy it?

EFFICIENCY DECISIVE

There is every reason to believe that this would never occur in actual practice, since in our own case the number employed has increased with our efficiency of production. Perhaps we are different in that we make welders. Perhaps the same thing would not occur if our product were bread or shoes or airplanes. Let us address ourselves to that problem. If we could reduce our cost by the amount stated, we could sell not only at home but to every country in the world. That alone would take the full production of every manufacturer of every useful product that could be

made in America. That will be discussed further in a later chapter. It is sufficient to say here that if the need for foreign markets exists in America, incentive management shows the way in which they can be completely captured.

Foreign trade is not only a way to develop new markets. It has much greater importance than that. It is a way by which we can and must understand our neighbors. We do not fight with our customers. We find how understanding can be promoted. We do not invade their lands; we promote their prosperity. We must take their products in exchange for ours. That is what world trade is. They are as anxious to please us as we are to please them. All, then, want to continue to exchange goods, not bombs. All want to exchange visits, not bullets. Foreign trade is a "must," both for our prosperity and for the continuance of our lives. Incentive-managed industry will produce the means of destruction that can wreck the world if we do not direct its efforts properly. Man has here also the means of progress or destruction. His power for good or evil is greatly enhanced. Here also, as with the atomic bomb and thousands of other means of progress that lie at our hands, we determine our future. Men of good will must direct the future, otherwise we shall destroy ourselves.

There is only one way that the high living standard can be defeated and that is by taxation sufficient to erase the benefits. We have gone a long way in that direction already. The present debt will force us further. If government takes from the workers in all industry the tax now contemplated, all these advantages can be eliminated. Instead of the high standard of living possible with free men under incentive management, we shall have given our purchasing power to government for its various activities, few of which will be buying a higher standard of living for the taxpayer.

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HOW ABOUT GOVERNMENT?

Again, we are faced with the question as to the proper place of government in our scheme of things. If the consumer must compete with government in determining who gets the dollars he earns to buy a standard of living, the consumer can be sure that he is licked before he starts. Competition from government must be eliminated or the high standard of living will be. Both cannot exist at the same time, as we are seeing now. If we kill ambition, we at the same time stop man's aspirations on which our future rests.

CHAPTER X

How to Install the Incentive System in a Going Concern

MANY people have seen our factory and asked about our incentive system. The question usually asked is: How do you install your system? In almost all cases the inquirer expects that there is a formula that can be applied, which would be somewhat like that for mixing a cocktail. There is a feeling that, if the ingredients used are given quantitatively, the putting in of the plan is practically accomplished. This reaction is almost universal.

Because of this reaction I want to state that the installation of our incentive system is not the result of applying a formula. I am convinced that anyone who approaches incentive management with the thought that it is merely the application of a formula will never succeed in applying the plan.

Incentive management is more like a religious conversion. It is not a spur to the man to speed up; it is a philosophy of work. It is not a method of getting more work for less wages; it is a plan for making industry and all its parts more useful to mankind. Unless the matter is seen in that light, there is very little future for it.

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I do not want to leave the idea that there is no chance for speed-up by a money incentive. There is, and in many cases the increase will be great. The point I make is that if speed-up is the principal end in view, the ultimate result will not be satisfactory either to the man or to the company. The gain will disappear in one way or another. The company will not gain permanently nor will the man.

A NEW PHILOSOPHY

As has been indicated, incentive management is a philosophy of industry. If speed-up is the end in view, there are many other systems that engineering firms will gladly install at so much per day; and certain advantages will no doubt accrue to the company installing them, at least at first.

The incentive management described herein must start with a proper manufacturing philosophy. The question that is to be answered is this: What is the reason for the operation of this company? If the answer is the one usually given in the bylaws of the company, "This company is organized for profit," and there is no other plan, do not try the incentive plan outlined here. Failure will be the only outcome.

If on the other hand the question is answered thus, "This company is organized to make a more and more useful product to be sold at a lower and lower price; profit is to be a by-product of this effort," then the plan can be applied and under proper management will be outstandingly successful.

The difference between these two goals is complete. In the first case, the profit to the company is the end sought. This end is completely and narrowly selfish. It

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rivets the attention in the wrong place. It will not prove very profitable in most cases. If we are thinking solely of how much profit can be made, there will be little thought on how good and efficiently the product can be made. If the mind is on, "How much do I get?" it will not be on, "How do I make this better, cheaper, and more useful?" The difference is fundamental and decisive.

I do not want to give the impression that profit will not be made or that it will be small. The record in Chap. I proves the opposite. I want to make the point that there is a fundamental difference in the approach if profit is the goal instead of the by-product.

ENTHUSIASM NEEDED

The reason for the importance of this point rests in the fact that the success of incentive management is dependent on the psychology of those in the activity. There must be a desire to accomplish. No great amount of enthusiasm can be engendered if the only end in view is the making of greater profit for some absentee stockholder. As a matter of fact, most of those in the operation would be glad if the stockholders never got a cent. Human nature does not cherish the thought of working for some absentee whom they already think of as being rich. In general, we can get much more enthusiasm in a project to stop such profit, if we feel that the stockholder does no useful work himself.

If, instead of that viewpoint for the activity, we concentrate on the making of a better and better product to be sold at a lower and lower price, we have an entirely different reaction. Here is a project that is worth while. Here is a job that can capture the imagination of all. This same reaction will be present even when the workers still

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know that a profit, and a large one, is made, if they feel that it is secondary and that it is properly divided. It is extremely doubtful if much enthusiasm can be engendered in any organization unless the results of efficiency are properly divided with those who have been the producers of it.

There is no doubt that the added income has its attraction to the worker, but that is not the real point. The source of the enthusiastic cooperation found in proper incentive management stems from the feeling that all have of uniting their efforts in one activity which they regard as worth while and to which their contribution is recognized and is real. It is the playing of the game that is most important in developing this cooperation.

NEW IDEAS NECESSARY

It is manifest that the first step in the installation of the incentive system is to prepare the minds of all workers for it. They must see that the project in which they are employed has a worth-while goal and reason for existence and is one in which they can put forth their efforts to advantage. They must believe that they will be rewarded properly in accordance with their ability and effort. There will be no difficulty in getting the enthusiastic cooperation of every man from the president to the sweeper if this plan is followed. The one point to be stressed, however, is that the organization must know and feel that this is the actual operation of the company.

The great difficulty to be encountered by the leadership is to get the organization actually to believe. This will be neither easily nor quickly accomplished. Doubtless that is why the application of the incentive system of management is so unusual.

The foregoing principles cover the entire philosophy of

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incentive management. There is not one of them that is new. They are all as old as man. Their fundamental soundness is just as well known as are the basic characteristics of man himself. Everyone aspires to a position in which his ability to be a man among men is recognized and developed. He can do this only in an activity which he regards as worthy of his best efforts and under circumstances that recognize his contribution. He wants to be a player in a game that he and all the spectators feel is important. He wants his contribution to victory acknowledged and fair compared to that of the other players. When he has that acknowledgment, he will play his head off; not only that, he will train, practice, and develop his abilities to make himself the greatest player that his abilities will permit. Organizing the game the players think is important and rewarding them in ways that seem to them just and in accord with their actual contribution—that is incentive management.

HINTS ON APPLICATION

There is nothing to add to the fundamental principles involved. The following from our own experience over a quarter of a century of trying to develop this plan in manufacturing may be helpful.

The first and greatest problem to be encountered in applying incentive management in any activity will be finding the necessary leadership. That fact is fairly evident from our discussion. Not only are leaders of the necessary ability and vision required, but they must be backed by the directors, stockholders, and subordinates to the extent necessary for success, no matter how long the development and application of the plan may take. Incentive management is a new departure in industry. No new idea is easily absorbed by humans. The trail to success is long.

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The result will not be obtained quickly. This will be true not only of the workers involved, but still more of those in management. Make sure that this is understood and accepted before any start is made by any leadership and that the necessary backing will be forthcoming from all necessary sources during the whole program. Don't start something that you cannot finish.

The second requirement is a product and a manufacturing plan that are fundamentally sound, useful, and progressive. There must be a product and a plan that will put into the hands of the buyer a more and more useful value at a lower and lower cost. This may cause some trouble in the thinking of many industrialists. There is a well-founded theory that the proper price for any product is "all the traffic will bear." This is completely contrary to any plan that will make incentive management succeed over any long period of time.

ADVISORY BOARD

The third useful suggestion is a means of talking to the men. About this there will be even more skepticism among them than in management. There have been many plans which have promised progress to them but which they found did not work out that way. Their memory is long and they are extremely skeptical. In our case, the advisory board is a useful means of conference. However, any means that makes for personal contact between management and men will be found useful. There cannot be too much of this if it is sincere, sensible, and friendly. There is a large job of education to be done, among both management and workers. As an aside, management will find that its education progresses fully as fast as does the workers' as it tries to teach them the new principles involved.

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In the fourth place, the application of piecework as an accurate means of measuring production will be found useful early in the program. The suggestions found elsewhere in this book regarding piecework may be helpful. Piecework payment is most useful because of the means it provides of accurately measuring the ability of the worker and his application and development.

Fifth, a division of the increased savings which this system produces by its efficiency must be properly made. Here management will have to do some thinking. If these savings are considered profit and used only as such, the plan is at an end. These savings are not profits. They are the result of the incentive that created more efficient manufacturing. This incentive was rooted in the idea of giving the customer more and more for less and less. The plan must carry this out continuously.

That means that prices will be lowered as fast as costs go down. Only so will new customers be attracted. Only so can the process of more and more for less and less be continued. There must also be reward to the men who produced the results *in accordance with their contribution to the success of the activity*. This we call "bonus."

DIVISION OF PROFIT

It is obvious that here again the division between each of the interested parties must be in the hands of the leadership. Here also success depends on the ability and honesty of the leaders. Here again there is no possible formula.

There is one fact that is evident at this point, however. The stockholder has contributed nothing new to the success of the plan. His contribution is small. Because of this, his cut in the savings should be relatively small. If the savings effected by incentive management are called

“profit” and largely go to the absentee stockholder, the plan will fail.

Our own experience shows that the ratio of cost to selling price should be kept constant. Hence, all savings on each dollar of sales will be handed on to the consumer. We depend on the standard profit from increased sales as our source of bonus and dividends. Here also we feel that the stockholder has contributed little. We therefore increase dividend percentages very slowly or not at all. The assurance of the continuity of dividend payment seems to satisfy the stockholders.

How much should be paid each worker in bonus? Here again there can be no formula. It is essential that the division of the bonus be made so that each will be rewarded in accordance with his contribution to the progress of the company and on no other basis.

It will be found that the workers' earnings under a proper piecework basis will be an accurate indication of their production. The real problem comes in rewarding the executives who have no direct measure for their contribution to the efficiency of the operation. Here leadership is again necessary.

Sixth, it may strike the reader that there is much said about the distribution of profit or savings, but very little about making it. As has been said earlier, when the incentive system of management is adopted, the attention of management leaves profit and concentrates on making the product better and cheaper and selling it for less. It has little time or interest in profit. Strangely enough, this by-product of the operation takes care of itself. It comes naturally as the result of the incentive plan. This is as true of profit as it is of scrap or taxes or depreciation, which come automatically if we do our job of manufacturing. We do not, however, give them first place in our thinking.

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That is again a fundamental principle. In passing, I can say that the profit will be as insistent and consistent in a proper plan of incentive management as are the other by-products noted above. In our own case, the bonus over the years has averaged much more than the dividends. It has also been an increase in the worker's reward of more than 60 per cent of his wages.

INCENTIVE DEPENDS ON MEN AND MAKES THEM

Nothing has been said so far regarding the most important part of this program. It is true that much progress will be made as soon as the worker wants to do his best. That progress, great as it may be, is only a start. The great gain that incentive can show is far beyond that contained in a program in which a man merely starts to try. The greatest gain is in the development of his latent capabilities and those of all in the organization. This developed ability is fundamental to success in industry, as it is in a baseball team or any other cooperative activity.

I have repeated this statement until it is no doubt tiresome. I can justify this repetition only because, although athletic teams are very careful to develop this ability, the same cannot be said of industry generally or of the labor leader in his attitude toward his men. Too often in both cases the individual is thought of as a "hand" or a "member," not as an individual. This attitude is so usual and so destructive that it must not be allowed in the thinking of any who would make progress in incentive management.

This development must start at the top. It will then go down to all the workers, if management does its job. All will be progressively better men as time, incentive, and leadership develop them. The top man will develop into a bigger man, because his responsibilities will be greater. The engineers, superintendents, technical staff, and all

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others will have new and more pressing responsibilities to call forth abilities that they never knew they possessed. The workers will find new wells of ability and skill that have been unknown up to that time because there was neither desire nor reason to open them up.

It is obvious that if the only inspiration one has in his daily task is to show proper respect to the boss and pass the buck at the right time, there will be very little human development. There is not only no reason for progress, there is instead a very good reason why the development should not take place. When a proper incentive, such as doing a man's job in the world is given, all this changes.

With incentive management, more money will be made by all workers. That by-product to the new outlook on life will be almost automatic. Of course, there will be enormous progress in cost and product. This must be socially beneficial and hence give more and more for less and less to the world. There will be new ideas, which must be used for the good of all, both workers and customers. Nothing else will satisfy human aspirations. There will be new ability arising from the ranks, which must be given every opportunity to develop and progress to the limit.

MANAGEMENT IS ON THE SPOT

There has been much said of the greater responsibility of management in the incentive system. The reason for this is primarily that management cannot be dominant in the generally accepted sense of the word. Under this system it is a guide, not a boss. Under this system it organizes and channels the knowledge of all the group for the solution of the various group problems. It cannot be a dictator.

There is little doubt that if a manager who knew all the

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answers to any problem could be found, he would be a successful industrialist in his own right. He could then be a boss of the old school. There are many such attempting to run industries, even with no complete understanding of any of the problems involved. Their failure is well known and well understood. The fact that most industrial concerns fail is illuminating. The difference between success and failure is not lack of opportunity by the unsuccessful concern. The difference is internal, seldom external.

In looking into the problems of management, it is well to remember that there are many people in any organization. Their experience is various. Their education has been in many fields. The statement that someone in the organization knows more on any subject than does the boss is, of course, true. It should be a very helpful thought to him. He has an aid that is inexhaustible and always at hand. If he is wise, he will use it in his job of management. If he is of small caliber, he will spurn it. How much he can get and use will be the measure of his ability.

MANAGEMENT'S PLACE

Management is a leader, a guide, a counselor—never a general in the military sense. It will be strong and very humble because it is smart enough to see its relative position in the scheme of things. There never was and never will be a successful industrial manager who is conceited. To succeed, he has to be smart enough to know how little he knows. Men of this type are the hope of the future of America. They will be the leaders of the world.

There is no set formula that can be given for installing incentive management. It is a philosophy of operation, not a routine. There are, however, certain suggestions that may be of help, which have come from our own experience. These are not rules, they are hints.

HOW TO INSTALL THE INCENTIVE SYSTEM

I

Determine that the system is going to be adopted and decide that whatever needs to be done to install it will be done.

II

Determine what plan and products the company will make that will carry out the philosophy of more and more for less and less.

III

Get the complete acceptance of the board of directors and all management involved in the plan together with their assurance that they will continue to take whatever steps are necessary for a successful application of it.

IV

Arrange a means whereby management can talk to the men and the men can talk back. That means full discussion by all.

V

Make sure of cooperative action on the agreed plan of operation. This will include the plan for progressively better manufacturing by all people in the organization and the proper distribution of the savings that result from it.

VI

Set your sights high enough. Do not try to get a little better efficiency with the expectation that such gain will be to the good and expect to leave

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the matter there. Incentive management must be adopted or not. There are no halfway measures in this any more than there are in pregnancy.

VII

Remember, this plan for industry is a fundamental change in philosophy. From it new satisfactions will flow to all involved. There is not only more money for all concerned, there is also the much more important reward, the satisfaction of doing a better job in the world. There is that greatest of all satisfactions, the becoming a more useful man; the progressing toward the goal that the Creator intended when He made man only "a little lower than the angels."

VIII

There will be great development of men in the most unexpected ways. Be sure that you have a place for them to go in their greater ability. There will also be many disappointments in those who should be leaders. Not all want to pay the price of success. Many will not want to be the men that they could make themselves. Place them accordingly. Do not hesitate when sure. The rising man must not be held back by some foot-dragger. Include yourself in this thinking.

CHAPTER XI

Starting a Business under the Incentive System

IS A NEW BUSINESS DIFFERENT?

UP TO this point all the discussion has had to do with applying an incentive to an established industry. That is the usual problem. However, the problem that is most important in the minds of a great many people in the post-war period is the starting of new businesses. The natural question then becomes: Can this incentive system be applied successfully to a venture that starts from scratch and has at first no profit?

In general, it is far easier to apply this system to a new business than to one that is old and long established. The reasons for this are obvious. A business starting from nothing except an idea in the minds of a few people does not at first require any incentive to get them to put into the project everything they have in the way of energy and cooperation. The incentive is already there. This is incentive management in its purest form.

It is plain that in such a business, starting from nothing, the profits will be left in it. This plowing back of the profits not only is necessary but is also the thing that the

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people who start it want. Their incentive is the feeling of accomplishment which the growth of the business gives them. That will be a greater incentive than paying the same money to themselves in bonuses or dividends. There is no difficulty in applying the incentive system to those who start a business. They are working under incentive management. When we can get all people in an industry to the point where they feel the desire to get ahead, as is always present with the founders of a business venture, we have incentive at its best. That is what incentive is. Only when other workers come into the activity as it grows need any thought be given to applying any other incentive.

NEW BUSINESS SHOULD BE STARTED BY AN EXPERT

In starting a new business the founder should first determine what he can do best. That will determine what the new business should be. He should take an inventory of himself and decide what special skills or abilities he has which can be of use to the public.

The plan for success in this, as in every other activity, must be to produce a better and better product to be sold to the public at a lower and lower price. This is the only successful philosophy for any industry. It is manifest that merely going into an industry because someone else succeeds in it should be no reason for expected profit. A profit must be deserved; it is the reward that the public pays for service. If service of greater value is not forthcoming from the new enterprise, the public should not and will not long pay. Industry must make sure that it is producing such a service or cease to try to be just an industry. That is the basic problem for the new entrepreneur to settle before he starts. It is the problem of the proprietor to determine what he has the ability to make that will be of greatest use to the public. When he has

found this, he is ready to start. Let us take, as an example, an activity that has a universal appeal—the running of a restaurant.

STARTING A RESTAURANT

The proper man to start a restaurant is the expert in the line of food, that is, a cook. He knows how to produce expertly a useful commodity that all need. The direction in which his efforts should lead is evident. He must perfect some outstanding dishes which he can serve at a proper price for the neighborhood selected. There is endless opportunity in this field. For example, has anyone ever tasted a bakery pie that took him back for more? Has anyone ever obtained a tasty and healthful salad from the usual restaurant bill of fare? Does the soup ever seem like anything but boiled leavings, highly seasoned? To list these errors of previous management points the way to success.

To one who knows nothing about restaurants, it would seem a simple matter to operate a successful eating place. Most restaurants serve perfectly tasteless food which does not compare in attractiveness with what one gets in his own home. It also costs several times that of producing a very much better product in one's own kitchen. That this should be true is almost unbelievable. It is the only activity that comes to mind in which the expert in mass production does not beat the amateur who makes one thing at a time. There is no reason for such a result except that the specialist fails to do an expert job.

WHY NOT A REAL LEADER?

There is no reason for this failure. Everyone has had the experience of eating in a restaurant where the food, usually a specialty, was excellent. If one restaurateur can do it once, all could do it always. The trouble is, the fail-

ure does not think of his job of running a restaurant as he must to succeed. He does not study the essentials. He does not strive to make a better and better product to be sold at a lower and lower price. However, the history of these unusual places generally is this: The proprietor's genius makes the operation successful at first. He may be the cook or he may have the ability to direct the operation to a point where it is outstandingly attractive. In many cases, after he succeeds, he loses interest or becomes absorbed in something else. He gets far enough away from the job so that deterioration sets in. The customers who at first were drawn by the excellence of the food then search for some other place where they can get something outstanding. From there to a "For sale" sign in the window is only a matter of time. This history is usual and tragic.

To anyone looking at the problem from the outside there should be no difficulty in keeping the quality of the food and the service up to a high standard. There should be no difficulty in adding new specialties of even greater attraction, while still maintaining the quality of the old.

As a matter of fact, it is not necessary to have more than one outstanding specialty. Competition is so inept seemingly that one quality dish will do the job and the proprietor needs nothing else outstanding to reap a harvest. We have all had the experience of eating in such places: chicken and noodles at Regnatz, cream oyster stew at Grand Central Station, fried onions at Sam's Place, etc.

YOU DON'T NEED AN ATTRACTIVE BUILDING

Not one of these places was outwardly attractive as a building. Not one of them offered anything but food. Not one of them made any attempt to sell the public by advertising or floor shows. But all were continuously turn-

ing people away. All of them have made large profits. None of them could help doing so.

Nothing has been said so far about applying an incentive in the development of these new businesses. There is no need to apply incentive at first for the reasons cited. However, after the activity grows, more people are needed for its operation. The incentive plan then should be applied. That is easily done since all people involved are close to the job. Selling incentive to the new workers is easy for that reason. Since all know all the facts, the interest of all can be easily aroused in the activity.

The transition from an activity that engages only the founders to one that employs many workers means a great change in operation, if the same incentive is given to the newcomers as was present in the founders. The founders had complete incentive in the mere growth of the concern. That was all they needed. The newcomers usually cannot have the same spur for obvious reasons.

What, then, is the preferable method for applying incentive to this new concern now beginning to branch out into larger fields? The same principles apply as before. Get the new workers of the firm to feel that they are part of the team playing a worth-while game. Make sure that the purpose of the activity is one that will appeal to the members, then make them a part of it.

There should be no trouble in finding a way to interest the newcomers if the owners want to and really try. Using the example of a restaurant, we shall need waiters. Put a premium on their building up a clientele who want a particular waiter to serve them because of his good service and the agreeable contacts. A happy disposition, a good memory and skillful service go a long way in keeping the customers coming back. A well-worked-out plan for serving food quickly and neatly will always be attractive and

increase the number that a single waiter can handle properly. No one can watch the usual restaurant's treatment of its customers without feeling that better service could be given with a third of the help if there were thought given to the mechanics of the operation and a willingness on the part of the waiters to do their best.

If the cooks and waiters should be desirous of increasing their skill, each customer could get actual individual service of just what he wanted, when he wanted it, and as he wanted it. He could also have the feeling that the restaurant was treating him as an individual and catering to his wants and his particular tastes. No customer could resist such service. He would be a steady buyer of the product and service. Thus is success built.

What could be done in a restaurant is merely an example of the fundamental principle of giving more and more of a desirable product for less and less.

The man in question could earn several times what the usual waiter earns, because he would be accomplishing that much more than is customary. He would increase the trade in this way and also the profit for the company.

There is another phase of the problem that such a waiter under such a system would make possible. That is a departure from the ancient custom called "tipping." This is the most nonsensical practice in existence. New thinking should be done about it and the restaurant blazing a new trail will make an enormous profit.

Tipping is a rotten way to pay a waiter and a great time-consumer as to service. It is done because it is a custom and the public feels that it must submit or get no service. Any restaurant with the desire to do a job would give service and eliminate tips.

Service and food should always be perfect. They should be so good that they could not be bettered. Tipping

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should be stopped. When the customer is fully aware of this, he will have another tie to the restaurant and the waiter. Also, the waiter for the first time will have self-respect. He will be a man among men—one who by his specialized skill can do things that no one else can do. He can then feel himself an expert with an expert's pride.

That more profit to him and to the company would be automatic is certain. The greatest boon would be the development of his latent abilities as he increases his skill and self-respect.

Can anyone doubt that such a program would have any other result than more and more for less and less? Can anyone doubt that the customer, the owner, and the worker would all benefit?

I have taken an extreme case as the illustration. The same principles would have much greater application in other more complicated fields, such as are usually met with in manufacturing. The principles are the same, however.

There is another result that flows from incentive management about which little has been said so far. That is the absence of strikes or other labor troubles. Cooperation not only saves the time and trouble that strikes cause, but also eliminates the loss of attention to the job that labor friction creates. When management and labor are always in accord, they can rivet their attention on the job in hand. Accomplishment far beyond what is usual in the collective bargaining unit becomes easy and natural. This of itself increases wages, profit, and satisfaction enormously.

THERE ARE MANY OTHER WAYS OF STARTING

I have illustrated this point by a restaurant. Most industries that are started do not have the universal application of the restaurant. However, exactly the same fundamental principles are involved.

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Again it is necessary that a product of unusual merit is first of all developed. The unusual merit may be a low price of a satisfactory product, an equal price of a more attractive product, or both. The product may be one which has never been made before and the need of which must be sold to people generally. Fifty years ago no one knew that he wanted an automobile, or a truck, or a radio, or penicillin, an airplane, a diesel electric locomotive, or wide paved roads. All these products had first to be developed ready for use; then the job of selling people on their use had to be undertaken.

There will always be the same problem facing the maker of any product. Our desires, our aspirations, our tastes, and our customs are continuously changing. The forward-looking manufacturer determines what we shall want. That is part of his genius.

ALL INDUSTRY IS COMPETITIVE

As he develops new products for the consumer and new desires in him, he also makes these things more usable, more desirable, and cheaper, so the market for them will be progressively expanded. That is incentive management's program. Thus is our standard of living raised.

It comes to this: Every industry is in competition with every other industry. When anyone has a dollar to spend there are a thousand things which are attractive to him and among which he must choose. That means there are a thousand things which he wants and which might be bought by his dollar. Therefore, he will use discretion as to what he buys. That is of decisive importance in the progress of all industry.

Suppose a man goes to buy a pair of shoes. He has \$10 with which to buy them. However, before he gets to a

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shop he sees a bargain in a hat. Because of its low cost, special design, or some other attraction, he forgets the shoes, pays \$10 for the hat and puts off buying the shoes to some other time. If other things could be made attractive enough to him, he might stop wearing shoes entirely so that he could satisfy other more insistent desires.

If the only automobile available cost \$10,000, we should find other means of traveling about. Few cars would be sold. We should use our money otherwise. The only reason truck competition bothers the railroad is the low cost of truck operation compared to the cost of operating the railroad. The only reason we send products by freight instead of by express is because freight costs less. We should much rather have them go by express because it is faster. However, we stick to freight because of lower cost. The only reason we wear ready-made clothes instead of tailor-made clothes is that the ready-made cost a fraction of the others. If tailor-made clothes cost no more, we would never buy a ready-made garment.

There is not a single contemplated purchase that would not be changed to some other product if the attraction of the other product were great enough. Attraction consists in quality and price. They are decisive in determining what we buy.

ALL ARE IN COMPETITION

It is well to keep in mind this fact, that at all times every manufacturer is in competition with every other manufacturer for the buyer's dollar. That is the reason why incentive management has been so tremendously successful. Because of the reduced cost and the increase in quality, the product made by incentive management has a tremendously expanded field compared to that made by any other method. That, of course, means that all manufac-

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turers must finally go to incentive management in order to remain manufacturers.

Any man who starts a new business will in so doing become an economist. No man ever started a business which was successful and from which he was able to make a living who was anything else than conservative. There are no socialists among successful proprietors.

SOCIALISM IS NOT ATTRACTIVE TO SUCCESS

There are many socialists, however, who have attempted private enterprise but were not able to make the grade.

It is a valuable thing to the future of this country that we shall have many a GI Joe who is going to start an industry on his own initiative. It is going to be helpful to the country generally that he is going to be assisted by government loans. If every one of them fails and the loan is lost, the education that will evolve from it will be well worth the cost. I say this because of my belief that the GI Joe will be, because of his experience abroad, quite different from the average individual who has not had training in warfare. It is my expectation that he will be willing to meet competition on the home front as he did on the battle front. Therefore, if he is not able to stand up against competition, he will not blame the game. He will blame himself. All do not win in any game. If we blame the rules instead of our lack of ability when we lose, all games must disappear. The attitude of many failures is to blame the rules. These men then turn socialists. The change that is usually asked by the failure is the removal of competition. He is beaten by better operation and blames the game, not himself.

Perhaps all games can be changed so all people involved can win. I doubt if there will be much interest in the game, however, either by the players or the spectators. I

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doubt also if much athletic ability would be developed by such changing of the rules.

When the drive to go socialistic comes with the next business slump, it will be well to remember the fact that all cannot win at any game. If all could, there would be no reason for the game or for the players.

CHAPTER XII

Economics of Incentive Management

WHY INCENTIVE MANAGEMENT?

It is feared that, because of our very remarkable production record, an entirely erroneous idea of the reasons involved may be drawn. It is true that money incentive has been a basic spur in the increase in our output. It is true that very great increases of output have been coupled with increased hourly wages and large reductions in cost. If the conclusion is drawn that incentive management as explained herein is merely a method of producing greater output, the main reason for this book will have been missed.

What has been explained is more than that. It is a mode of working together in a cooperative effort wherein much greater satisfaction and a much fuller life have been achieved for all concerned. Unless these fundamental facts are comprehended, the principles will not be understood. Incentive is not primarily for the purpose of spurring people on to greater heights of accomplishment so that someone can gain from their efforts. It is a philosophy that will develop those things which are best in all of us. It is this outcome that must be the chief end sought. Only so is it sound and enduring.

OTHER RESULTS ATTAINED

There are many other results that automatically flow from this system, however. Some have been discussed elsewhere. There are others that are also important. All will agree that industry exists to supply the consumer with the things that make for a higher standard of living. The larger the market for the product, the greater the service that industry gives, not only to industry but to all people. When incentive management views the problem of markets, a new horizon immediately is discovered. Industry then can enormously increase its service to mankind. The low cost makes its products available to all the world. That is how world markets are captured.

FREE TRADE

Manufacturers want the world's limitless market. That is obvious. However, we American manufacturers see over this very attractive market a strange and terrible form that is both unfriendly and dangerous to all American industrialists. We call this terrible character "foreign competition." We fear him since we have for generations been taught that we cannot face him because of our high wage rate compared to the rest of the world. This terrible ogre is strong. He is hungry. He is menacing. We are afraid. We want none of him. Many American manufacturers are so startled by him that they fly to their greatest natural enemy for shelter and protection. That is government control. They cry to the Congress, "Do whatever you wish to us but protect us from this terrible giant. Do not let him get into this country."

The politician is not at all loath to take this frightened, overgrown boy under his jurisdiction, and does. He passes a law that erects a tariff wall and excludes foreign

competition. The government then takes its toll from industry. After industry has once run to the protection of government, it is no longer its own master. Restriction and exploitation follow as a matter of course. Industry has admitted its weakness. Government has supplied its protection. Industry's admission of weakness has made that weakness real. That is true, even when no reason for the fear ever existed in reality. In any case, after being protected from competition for a generation, industry can no longer stand on its own feet. In fact, many an industrialist would give up without trying if free trade were made the policy of the country tomorrow, so completely has he sold himself on his inability to meet that giant, foreign competition. The beauties of the foreign market are not even thought of as possible, no matter how much we need it.

I have no desire to discuss the economics of a protective tariff. The arguments that have been used by protectionists, and believed in many cases, deal with conditions that seem to me very unreal. However, there is one thing that all can agree on, namely, that the erection of a tariff wall will no doubt exclude the foreign competitor from the American market. If it is high enough, we shall not even know that there is such a thing as foreign competition. However, the tariff wall is just as hard to hurdle going out as it is for the foreigner to hurdle it coming in. When we erect a tariff wall, we exclude the American manufacturer from the foreign market at the same rate, and just as completely, as we exclude the foreign competitor from the American market.

It is almost unbelievable, but many people still feel that a tariff wall handicaps the foreigner from coming here but does not limit the American from selling abroad. The fact is that a protective tariff is for the single purpose of raising in the American market the costs of the products that the foreign manufacturer may wish to sell here. Since the

cost of the things sold here by the foreigner is raised by the tariff wall, that must obviously be reflected in the price in the home market. The American manufacturer must use some things made abroad in making his product. There is no doubt that higher cost of such things as he must buy from abroad will increase his cost by that amount. Sugar costs twice as much here as it does in Cuba. Candy must reflect that cost, whether we try to sell it in America or abroad.

Selling in any field depends on the price in that market. Since a tariff is solely for the purpose of raising the price, it is manifest that all products offered in a protected market suffer in exact ratio as the cost is increased by the tariff. For example, in Canada, which is a highly protected market, the selling price of arc-welding equipment and electrodes is the American price plus Canadian duty. The same is true in the case of other products with which I am familiar. How much chance has Canada to sell such products in Europe? It is evident also that a product using welding must be increased in cost by the margin shown above. We can, and do, exclude the foreign manufacturer from America by this device, as does Canada. But by that same action and by the same amount, we exclude the American manufacturer from all world markets.

I have not mentioned an obvious additional fact. The American manufacturer has no chance to sell abroad unless he buys an equal amount from the world markets. No one can long buy what he cannot pay for. No one has yet found a satisfactory way to buy goods unless he obtains the money by selling an equal amount.

WHY NOT TARIFF IN THE UNITED STATES?

There has never been a time, so far as the writer knows, when anyone considered erecting a tariff wall in the United States between the low- and the high-cost areas. Yet corn

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can be grown in Iowa for perhaps half the cost required in Massachusetts. Manifestly there is justification for a tariff in such cases, if there is justification for a tariff between Canada and the United States. We also demolish the tariff wall as soon as we take over any new territory (note Cuba and the Philippines). That, however, is easily explained by the protective-tariff enthusiast. I am not at all clear, however, as to just how he works it out.

The important matter, however, that is discussed here is that by incentive management the terrible ogre of foreign competition is killed for all time and the beautiful dream of foreign markets is made a reality. This is not a theory. It is the history of The Lincoln Electric Company under incentive management. It can be the case in any and all industries.

WHAT ABOUT PERMANENT PEACE?

Our relationship to the rest of the world must be shaped up into a new national policy. There is very little doubt that our contact with the rest of the world is now going to be closer than ever before. We have decided that for the purposes of eliminating future wars we are going into a world organization. If this succeeds, we can be sure that we are going to have to meet all other nations in competition. We have our choice. We can let down the bars on immigration, in which case the foreigner will come to our shores. We then must meet him in competition here. We can, on the other hand, if we prefer to do so, compete with the foreign products in our home market and in the world market without tariff protection. If we are not willing to let the foreigner or his products in, it is doubtful how far our professed desire for cooperation with the rest of the world will be believed. That can be very dangerous, as we have already seen.

ECONOMICS OF INCENTIVE MANAGEMENT

Putting the matter bluntly, in any plan of world cooperation we shall have to meet the competition of the world. We can do it. However, we have had some experience that it is well to consider at this juncture. We have not met successfully the competition of the Japanese farmer on the West Coast. In spite of all the laws we could think of to handicap him, the Jap has driven the white farmer off the land. He is a better farmer. Many parallel cases can be cited of the old-line American's failure to meet the competition of the newcomer. This is true in many activities such as athletics, banking, merchandising, moving pictures, music, and art. The position of the old American families in our economy is becoming progressively less important. One reason for this, obviously, is the influx of many immigrants to our shores prior to the turn of the century. That cannot be an important reason now.

WE HAVE GROWN SOFT

In order to appraise the reason for such failures, it is well to consider the fact that the native American originally settled the country against the resistance of the Indians and all the other difficulties that such a project involved. We did it then successfully. However, in later generations we have grown soft. Progress is now largely made by those who have had the toughening effect of more opposition in making their progress. The American of earlier family has been outdistanced because he is not now trying. Continued ambition seems needless to him and he lets up. It is not necessary to prove this point. We see it in union's limiting the output of the American worker generally. The Japanese does not limit output. We see it in the prosperous student's lackadaisical attitude toward study in any university, compared to his foreign contemporary who is willing to pay the price of education and acts accordingly.

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We see it in the attitude of the immigrant maid toward work as compared with that of her mistress. The desire of the American of old family to progress has often disappeared after a competence has been obtained. Ambition disappears in many cases, along with the foreign accent. That is the glory and the penalty of the American way of life. It produces a very high standard of living, but in so doing it is apt to eliminate the ambition that created that standard.

That is the problem that we, as a country, now face. Our reaction both in fear of foreign competition and in our desire to trade our freedom for security does not promise well for the future of the country. Great nations are not made up of people who love freedom less than security. Great nations never fear nor are they beaten by the competition of their contemporaries.

Of course, this fear of and defeat by foreign competition is not universal in America. Far from it. The automotive industry is an outstanding example of American industry that can and does meet foreign competition. Not only that, it beats all competition in all markets. The American automobile is the standard for the world.

The obvious conclusion to be drawn from this is that American industry that will do the kind of job that can be done by Americans of ambition and the forward look can meet and beat the world. Cowardice will not win. Running away from competition will not. Fear of the future in the minds of Americans, which prompts them to trade their freedom for government's idea of security, will not.

INCENTIVE MANAGEMENT WILL RECOVER AMBITION

Incentive management has allowed American industry to meet and beat the world. Our own experience, in addition to the record by the automotive industry, may be

illuminating. In comparison to foreign wage rates, Lincoln Electric pays from four to more than twenty times as much per hour. Yet under this so-called "handicap," the cost of production is much less than that of any competing industry anywhere in the world.

The following actual experience is illustrative of this statement. In May, 1939, I visited the largest manufacturer of arc-welding machinery and electrodes in Germany. This company was Schorch-Werke at Rheydt, near Cologne. This visit was for the purpose of comparing manufacturing results. It was arranged that the officials of Schorch-Werke would return the visit in October of the same year. Hitler's war interfered. The following cost comparisons were found at the time of my visit: It took the Germans twenty-four times as many man-hours to produce a ton of electrode as it did The Lincoln Electric Company. The German average wage rate for their labor for these operations was 28 cents (American) per hour. Our rate at that time per hour was approximately \$2. It will be seen therefore that their cost for labor per ton of electrode was three times ours, in spite of the fact their hourly wage rate was less than 15 per cent of ours. The German selling price of the finished rod was more than twice the price of our electrode.

DO NOT FEAR FOREIGN COMPETITION

Why fear such competition when America's freedom can tap the latent abilities of the American worker and develop such abilities? Germany could not do that. It controls from the top. Its system was the military. The only brains or ability that can bear on any problem must come from the top. No one need fear such a system in competition with America's system of free enterprise.

The principles of incentive management are not solely

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for industry. They are just as applicable in other activities as in manufacturing. Let me repeat, this is not a plan for more profit as an end. It is a plan for a better way of life. The principles are not new; they are as old as the yearnings of man. They work in industry. They have always worked in amateur athletics. They have always worked in our contacts with our friends.

They succeed because man is made that way and always has been. The reason why they have not been universally applied from the first is no doubt the influence of slavery, feudalism, and the military mind on our thinking. We started that way and custom has held us in this wrong groove ever since.

It is illuminating to remember that if all our contacts with our fellow men were on the same basis as the usual relationship between management and men, the human race would never have survived. If we exclude the relationships that are similar to the principles of incentive management from civilization, life would be impossible. Friendship, the family, all religion, and all mutual cooperation would disappear. Mankind would return to the beast if it did not destroy itself before.

We Americans can blaze a new trail. We can become the dominant industrial nation of the world. In doing so, we can raise all nations to new heights. We have the latent abilities. We have the birthright of freedom given to us from generations past. We have the education, the pride, and the genius, the result of this birthright. We have the pioneers from all the world who came attracted to our shores to develop their genius in this atmosphere of freedom. We have a country of ample natural resources which our genius can make a fairyland. All we need is the determination that we will keep our heritage. We will grasp our opportunity. We will fulfill our destiny.

Date Due

JUL 18 '66	JUL 20 '66	DEC 23 1967	DEC 16 1967
AUG 2 - '66	7/28/66		
OCT 24 '67	OCT 29 '67	MAR 15 1968	
NOV 21 '67	NOV 6 - '67	APR 18 1969	APR 27 1969
NOV 27 '67			
APR 25 '74	MAY 15 '74		
JUL 9 '74			
	JUL 2 '74		
MAR 21 '75	MAR 18 '75		
MAR 27 '78	MAR 22 '78		
JUL 31 '78	JUL 28 '78		
JUN 23 '80	JUN 2 '80		
JUL 29 '81	JUL 30 '81		
DEC 2 - 1981	DEC 2 1981		
NOV 11 1982	OCT 27 1982		
DEC 13 1982	DEC 6 - 1982		
NOV 11 1984	NOV 26 1984		
SEP 29 1986	OCT 6 1986		

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